

# Nation's Business<sup>®</sup>

The Small Business Adviser

Published by U.S. Chamber of Commerce

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To Speed Your Work**

**How To Evaluate  
Your Employees**

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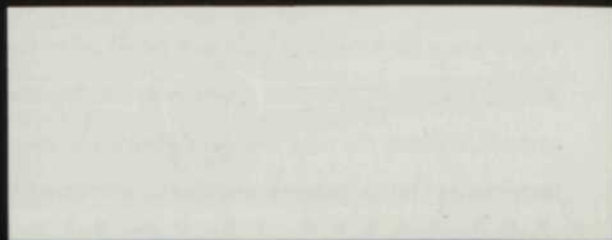
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engineering and design. To begin with, Concorde's new generation, lighter-weight, all-aluminum engine not only provides nearly 25 percent more horsepower but it also manages to be 10 percent more fuel efficient.\*\* What's more, combine this sort

\*Base MSRP (Concorde LX) includes destination, excludes tax. Wheels shown, extra. \*\*Comparison of 1997 MY 3.3 liter engine to 1998 MY 2.7 liter engine (LX model). 1998 MY EPA est. mpg (LX model): 21 city, 30 hwy.





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E N G I N E E R E D T O B E G R E A T C A R S



# Nation's Business

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PHOTO: T. MICHAEL KEZA

Based on his dealings with OSHA, Eamonn McGeady, president of a Baltimore marine-construction company, says employers should learn all they can about the federal workplace-safety agency to be prepared in case they find their firms under its microscope. Cover Story, Page 14.



PHOTO: GUY AROBOLU—BLACK STAR

Adding Southwestern flavor to East Coast dining is Kevin Rink's recipe for expanding his Desert Moon Cafes. Franchising, Page 61.

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A surprise safety inspection could put you out of business. Are you prepared? Having a reasonably safe workplace isn't always enough to satisfy the Occupational Safety and Health Administration, say business people. Many find the agency coercive.

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# Editor's Note



PHOTO: CUCIN &amp; FULTON JR.

Born as marketing props and produced by Ann Carlson, left, and Bonita Somers, Softies now go to parties. Making It, Page 76.

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## Workplace Safety And Health



My first experience with workplace safety came before I reached school age. It was the day my mother received a call that my father was in the hospital having his ear sewn. He had been too close to a machine at work when the machine came on unexpectedly. I had visions of his ear dangling from his head—and those visions made a lasting impression.

Most employers, too, know that their employees may not arrive for work the next day if safety and health are not chief concerns. Employers' attention to these matters is reflected in the decline in job-related injuries and fatalities. Yet just the thought of OSHA, the Occupational Safety and Health Administration, gives heartburn to many business owners and managers—even those who are models of safety awareness.

This month's cover story, by Senior Associate Editor Steve Bates, explains why. And it provides useful tips to help employers be prepared when OSHA calls. Don't miss this timely report, beginning on Page 14.

Two of our longtime colleagues at *Nation's Business* retired recently, and we will miss them greatly. Janet Foard, administrative assistant to the vice president/publishing, was a wonderful voice of common sense and a superb administrative asset to this organization for 13 years.



PHOTO: T. MICHAEL KEZA

Art Director Hans Baum, at left, worked on the design of 325 issues of *Nation's Business*, not to mention thousands of other projects, during his 28-year tenure. His tremendous dedication to quality, his initiative in meeting graphic and workload challenges, and his design finesse will be sorely missed.

We wish both of our former colleagues all the best.

*Mary Y. McElveen*

Mary Y. McElveen  
Editor



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# Letters

## Stakes Are High In Setting U.S. Health-Care Policy

✉ I recently have heard a number of horror stories from people regarding their experiences with managed health care, so I found "The Backlash Against Managed Care," [Cover Story, July] to be quite timely.

However, I believe that the article failed to convey the rage of many victims of the managed-care system.



I am furious that while our government provides millions of dollars to scientists to develop state-of-the-art medicine, citizens are increasingly denied access to this blue-chip level of expertise and instead are shunted into minimal care for the sake of cost savings.

I am furious that bright, ambitious people are refusing to become doctors or other health-care workers in a medical system in which they would not be given the authority to provide the kind of care they want to provide, and that others already in the system are leaving in droves.

These are just two of my concerns. I call on insurance companies, employers, and politicians to do everything in their power to attack this issue as one of the most fundamental of our age and to bring to their efforts thoughtfulness, compassion, creativity, generosity, vision, and moral courage. The stakes are beyond measure.

Karen S. Patton  
Venice, Calif.

## A Backer Of Reform

✉ A difference of opinion is one thing. But the U.S. Chamber of

Commerce does a great disservice when it misleads its members and readers of *Nation's Business*.

"The Backlash Against Managed Care" falsely says that the Patient Access to Responsible Care Act—sponsored by Rep. Charles Norwood, R-Ga.—and other managed-care reform legislation "would expose employers to medical-malpractice lawsuits for coverage decisions they or their health plans make."

No reform legislation in Congress would expose employers to such liability, and most, such as PARCA and the Patients' Bill of Rights, specifically exclude it.

Indeed, the opposition of the Chamber to managed-care reform, and the Chamber's phony arguments, are contrary to the interests of its member businesses. For the few pennies a month that reform might cost, 85 percent of American families could receive the health care they need and deserve when they require it.

Employees whose health or that of family members is jeopardized by the delay or denial of proper care will be unhappy not only with their health-care insurer/provider but also with the employer's choice of insurer/provider.

In addition, medical conditions aggravated by insurer/providers' inadequate medical care result in more costs to the employer in sick days and disability payments.

It is a false economy to support insurer/provider profits over employee health.

Richard D. Hailey  
President

Association of Trial Lawyers of America  
Washington, D.C.

[Editor's Note: We stand by our story.]

## Helping Businesses And Older Workers

✉ In response to "Help In Hiring Older Workers" [June], which talked about older workers and the value of their experience and work ethics, I could not agree more.

This has long been the case in our work environment, and many companies that believe they can downsize and hire younger workers for less end up sacrificing some quality in their work force.

I felt so strongly about the need for employing older workers that a partner and I started an employment agency that specializes in the placement of people 50 and over. I had one goal in mind: finding em-



ployment for older workers who had been downsized and who were having a hard time finding employment because they



**Older employees** can bring experience and a strong work ethic to the job.

were deemed "overqualified"—another word for "too old."

We have had success in placing workers over 50 and in so doing have forged good relationships with area businesses.

*Barbara Davis  
General Partner  
ProTemps  
Woodinville, Wash.*

## Millennium Bug Not Likely To Affect Older Sprinklers

It is amazing how something as simple as a fire-sprinkler system can be endowed with mystical powers. After watching some action movies, many people might believe that the opening of one sprinkler will magically cause all the other sprinklers in a building to open.

Now, after reading "Counting Down To The Year 2000" [August], we learn of the peril caused by embedded chips that are going to cause every building with a sprinkler system to be soaked starting just after midnight on Dec. 31, 1999.

Your readers need to be advised that a typical sprinkler system is a piping network that is pressurized with water and that has a sprinkler head for every 100 to 220 square feet. The sprinkler heads are designed to open at a predetermined temperature either when a metal alloy is melted or a glass bulb is ruptured. We are talking about 1895 technology—and there were no computer chips in 1895.

Granted, there are some fire-alarm or fire-pump panels that could be affected, but not your typical sprinkler system.

*George Benz  
Salesman  
Guardian Fire Protection Co.  
Deer Park, Texas*

[Editor's Note: We received a number of letters similar to Benz's. Simpler and older

sprinkler systems are not likely to be vulnerable to year-2000 problems, except perhaps when a water pump is computer-controlled. At risk are more complex fire-safety systems that may be triggered by sensors rather than heat and may involve the discharge of chemicals rather than water. Most such systems will enter the year 2000 without a hitch, but as the article suggested, in case of doubt you should talk to your vendor.]

## Putting The Person Before The Disability

Regarding "Can-Do Attitudes And The Disabled" [May], *Nation's Business* should be commended for a fine article about entrepreneurs with disabilities. Such an article in a magazine that is prominent in the business community can do much to improve attitudes about people with disabilities and help create equal opportunities for them.

I would like to suggest, however, that instead of using the phrases "the disabled" or "disabled people," you substitute the phrase "people with disabilities."

It's important that all of us put the person first and the disability second. It may seem trivial, but such language is important in fostering positive attitudes about people who have many skills and abilities and happen to also have a disability.

*Paul Carpenedo  
Executive Director  
Erie Homes for Children and Adults, Inc.  
Erie, Pa.*

## Correction

In the August issue, an item in the Deadline: Washington section, "IRS Raises The Threshold For Monthly Payroll-Tax Deposits," should have stated that the total number of employers—rather than companies—not required to make monthly payments under new Internal Revenue Service rules will reach about 2.1 million, or one-third of all employers in the United States.

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# Nation's Business

The Small Business Adviser



# ENTREPRENEUR'S NOTEBOOK

By Michael P. Galvin

## A Total Solution To Improve Sales

**S**uccessful turnaround strategists, like stuntmen who avoid injuries, take only carefully calculated risks. In 1994, Media Cybernetics, LP, in Silver Spring, Md., was lagging financially and seemed to be a candidate for such a risk. I bought the company that year, believing that if it were repositioned, it could do a lot more business.

Media Cybernetics produces image-analysis software products for product developers, quality-assurance inspectors, and research-and-development specialists. Our customers take a picture of what they are working on, put that image into their personal computers, and use our software to count, measure, compare, filter, or enhance details of the image.

For example, clients such as General Motors Corp., IBM Corp., Bristol-Meyers Squibb Co., and various hospitals use our software to cut the costs and cycle times of product design, materials analysis, and inspections. Users can store and retrieve image analyses for use in compliance with ISO 9000 quality standards or government regulations, or for protection against product liability.

The weakness I saw in Media Cybernetics was its narrow sales model, which ignored customers' need to obtain the hardware necessary to use our software.

I was intent on broadening the company's scope and expanding sales, so I began creating a "solution" sales model, in which you market your product along with the components and services—obtained

from other firms—needed to use that product. This enables a firm to provide an integrated solution for the customer.

Our conversion to the solution sales model is the main reason Media Cybernetics has achieved top market position, sig-

private labels or ways of distributing your product with their own. By doing this, Media Cybernetics helped OEMs integrate their components into solution sales.

This strategy enables you to leverage your products into markets and distribution channels not covered by your dealers. Then the OEMs can leverage their products into new markets.

**Make sure your partners commit to leadership in price and performance.** They should agree to improve and upgrade their offerings continually. The result is summed up in this adage: Best products beg best solutions.

By marketing whole-product solutions in addition to our stand-alone software, we have helped make our products easier for dealers and OEMs to sell—and for our customers to use. Dealers and OEMs now spend more time selling and less time

with hassles such as hardware-procurement delays. Clients find it easier to use our products to boost productivity and quality.

All this has contributed to accelerated sales growth and a financial turnaround for Media Cybernetics.



PHOTO: T. MICHAEL KEZA

*By offering integrated solutions for customers' needs, Michael P. Galvin took Media Cybernetics, a software provider, to the top of its market.*

nificant profitability, and annual growth of 30-plus percent. Here are the steps we followed—steps that might help you, too:

**Form distribution alliances to coordinate delivery of the whole product solution to the market.** We introduced a marketing strategy that includes not only our software but also the high-speed cameras, image-capture cards, and cables—all produced by others—that our customers need for our software to work. Such a consolidation of distribution can establish your product as the easiest and fastest to acquire, install, and use.

**Increase your dealer and user training.** We trained dealers in how to sell the solution to customers based on their needs. Together with our dealers, we trained clients in how to make better use of our products. All this boosted dealer productivity and demand for our products.

**Partner with original-equipment manufacturers.** Let OEMs use their own

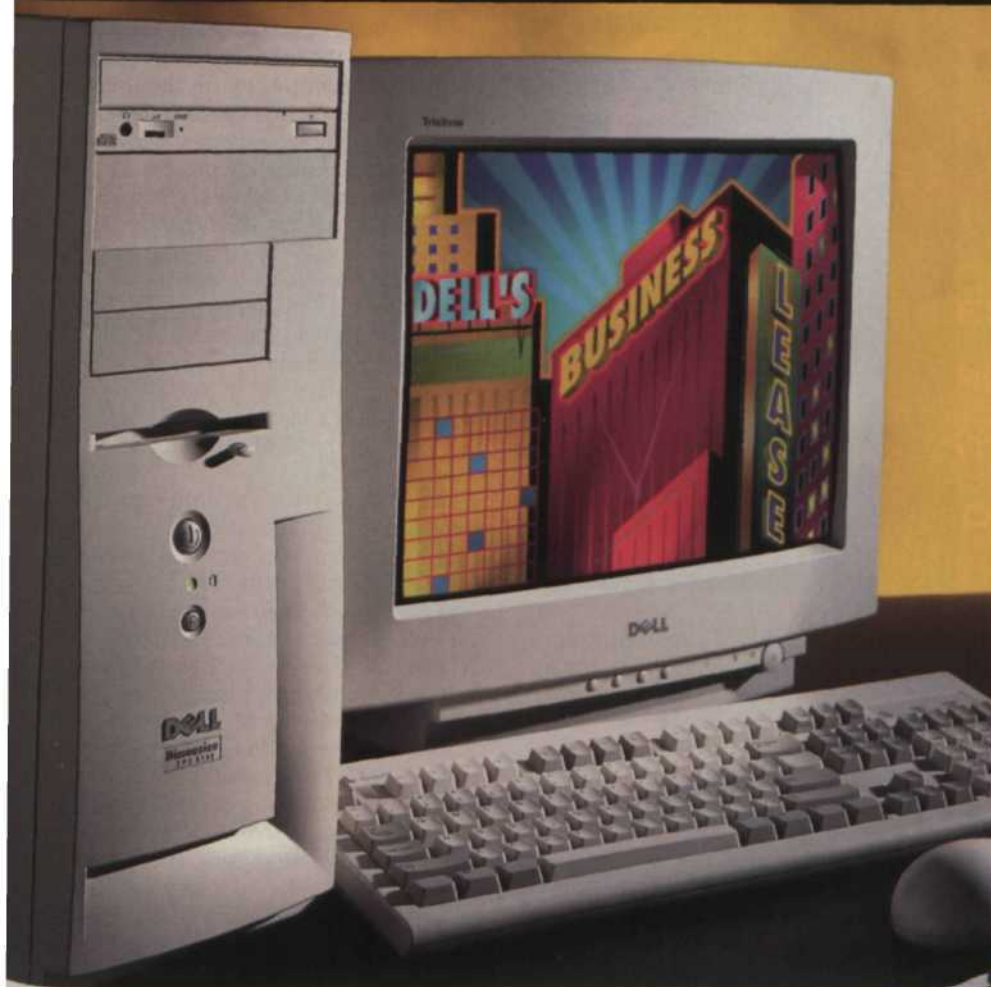
*Michael P. Galvin is chairman and CEO of Media Cybernetics, LP, in Silver Spring, Md. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.*

## WHAT I LEARNED

*A marketing strategy that integrates your product with other firms' components or services can boost your sales.*



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# Dateline: Washington

Business news in brief from the nation's capital

## TAX POLICY

### IRS Overhaul Is Good News For Small-Business Owners

Small businesses gained some leverage with the Internal Revenue Service when legislation to overhaul the agency was enacted.

The measure, signed into law by President Clinton on July 22, gives individuals and small firms expanded rights in dealing with the tax agency, especially during audits and U.S. Tax Court cases. The measure also restricts somewhat the IRS's ability to take action against taxpayers.

The final IRS reform measure was a compromise between the House bill passed last November and the much-stronger Senate bill approved in the spring.

"With this legislation, we have sought to create an agency that has a reputation for service, civility, and fairness in the treatment of taxpayers," said Sen. William V. Roth Jr., R-Del., chairman of the Senate Finance Committee, at a recent rally in Washington.

Martin Regalia, vice president and chief economist of the U.S. Chamber of Commerce, said, "This bill will help to inject some balance into business people's dealings with the IRS, which should foster improved relations and enhanced efficiency."

The new law establishes an independent oversight board for the IRS, made up mostly of private-sector representatives,



PHOTO: T. MICHAEL KEZA

Sen. William V. Roth Jr., R-Del., shown speaking at a Washington rally, hailed IRS reform for its "fairness in the treatment of taxpayers."

and allows the commissioner, Charles O. Rossotti, to reorganize the agency.

Rossotti has said he wants to abandon the regional structure in favor of market segments by type of taxpayer: individuals, small businesses, large companies, and nonprofit organizations.

Among other provisions, the legislation:

- Extends the attorney-client privilege to the relationship between the taxpayer and his or her certified public accountant or enrolled agent or actuaries.

- Shifts the burden of proof to the IRS in noncriminal tax cases before the U.S. Tax Court as long as the taxpayer has cooperated in giving the IRS access to documents and witnesses over which he has some control. This rule also applies to small businesses whose net worth does not exceed \$7 million.

- Requires the IRS to provide the taxpayer notice of additional taxes due within 18 months of the filing of the return or the due date; if notice is given after 18 months, interest and certain penalties are suspended until 21 days after a notice is received. The 18-month period is reduced to 12 months beginning in 2004.

The legislation makes several changes in the tax code, some of which did not appear in either the House or the Senate bill. They include shortening the holding period to 12 months from 18 months for property to qualify for lower capital-gains tax rates enacted in 1997. Those lower rates are 20 percent for upper-income taxpayers and 10 percent for those in the lower brackets. The provision, effective Jan. 1, 1998, was included at the insistence of Rep. Bill Archer, R-Texas, chairman of the House Ways and Means Committee.

—James Worsham

## TRANSPORTATION

### Takeover Could Make Railroads More Competitive Carriers

Conrail Inc.'s Northeast rail-freight system will be acquired and divided between Norfolk Southern Corp. and CSX Corp. under a plan approved recently by the U.S. Surface Transportation Board, an independent panel that regulates interstate transportation, primarily railroads.

The move, likely to take place this year, is expected to make Norfolk Southern and CSX more competitive with the trucking industry, which carries more than 80 percent of the freight in the Northeast.

Trucking firms traditionally have charged more than railroads for moving goods in the Northeast corridor. It is not yet clear, however, how the change will affect costs for shippers and prices for consumers.

Conrail, with about 11,000 miles of track, has had a near-monopoly on Northeastern rail freight for many years. It was created after the bankruptcy of the Penn Central system nearly three decades ago.

Federal regulators, in approving the di-

vision of Conrail, said they want to ensure that Norfolk Southern and CSX do not have the kind of congestion problems that caused Union Pacific Corp.'s recent near-breakdown in rail-freight service in Western states.

—Steve Bates

## INTERNATIONAL TRADE

### A Change In Terminology But Not In Tariff Status

During the recent debate over granting most-favored-nation trading status to China, some people might have thought it was about giving China some special trade consideration. Not so.

Now, Congress has cleared things up by changing the term "most favored nation" to what it actually means—"normal trade relations." The change was made in the Inter-

nal Revenue Service reform legislation signed by President Clinton on July 22.

When a country has MFN—now NTR—status, the goods it exports to the United States are subject to the lowest permissible U.S. tariffs. All but six nations now have NTR status.

China was first granted MFN status in 1979, shortly after the United States established diplomatic relations with the communist regime in Beijing.

—James Worsham





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# Managing Your Small Business

*Succeeding in the wake of success; going to the dogs; providing service where it's needed.*

By Thomas Love

## EXPORTING

### Making Waves Overseas With Well-Made Products

Quality sells not only in the United States but worldwide, says Henry Mohrschladt, founder—along with his partner, Michael Howarth—of Cabo Yachts, a company that builds sport-fishing boats in Adelanto, Calif.

Although their boats are powered, the partners have experience with sail. They used to own Pacific Seacraft, a firm that produced sailboats—one of which appeared on a national magazine's list of the top 100 U.S. products in 1987. The following year they sold the company to a Singapore-based conglomerate.

Under their agreement with Pacific Seacraft's new owners, Mohrschladt and Howarth could not build competing sailing craft, so they founded Cabo Yachts. Their first sport-fisher, the Cabo 35, was launched in 1991 and won rave reviews.

Initially they sold their boats in California, but sales lagged because of the state's then-weakened economy, so they explored more-promising markets, first on the East Coast and then overseas, Mohrschladt says. "In 1993, we made a decision to export."

The company placed a costly advertisement in a Japanese boating magazine every month for a year and eventually allied with a strong Japanese dealer for Cabo Yachts' products. In 1994 the company introduced its second model and started selling in Japan.

"We were doing a lot of business with Japan when the [Japanese] stock market crashed, and then we looked to Europe" in a major way, Mohrschladt says. "We had a dealer in Italy ... and one in Greece who [were] doing very well. We moved sort of bit by bit."

Of Cabo Yachts' \$19 million in sales last year, \$3.8 million came from abroad. The company is expanding its plant by 30 percent and its production capacity by 25 percent, and it now sells in 15 countries and has dealers in more than a half-dozen.

Cabo Yachts has succeeded in exporting, Mohrschladt says, because it turns out quality products—"quality is the main thing, particularly in Japan"—and because it delivers on customers' expectations. "When someone thinks about a sport-fishing boat," he says, "they picture



PHOTO: EBART BARTHOLOMEW

**Boat builders** Michael Howarth, left, and Henry Mohrschladt have developed a global market for the American-style sport-fishing craft made by their California firm, Cabo Yachts.

an American boat. That's the image they have. There aren't many countries that are successful in exporting boats. ... Sport fishing is pretty much of an image thing. You want to look good when you're fishing,

so we cater to that sort of fantasy."

For its success in foreign markets, Cabo Yachts was named 1998 Small Business Exporter of the Year by the U.S. Small Business Administration. ■

## THE WORKPLACE

### Making A Pet Project Of Worker Retention

With qualified workers in short supply, some companies are adopting innovative hiring and retention inducements—such as letting employees bring pets to work. John A. Challenger, executive vice president of Challenger, Gray & Christmas, a Chicago-based outplacement firm, says, "If enough people like the concept, it could become a major factor in employment decisions."

Netscape Communications Corp. of Mountain View, Calif., says its three-year-old "dogs at work" policy has been cited by several employees as their reason for joining the company. Other pet-friendly workplaces in Silicon Valley include Internet company Excite! Inc. and software developer Autodesk Inc. Both companies report that their policies on

pets have been well-received.

At Iams Co., a pet-food maker in Dayton, Ohio, workers often bring in their dogs and cats for a day, usually in connection with an appointment elsewhere with a veterinarian. (At Iams, visitors are greeted in the reception area by the "vice president of canine communications," a golden retriever named Kersee.)

Ice-cream maker Ben and Jerry's, based in South Burlington, Vt., holds an annual Dog Days of Summer party; employees bring their dogs, and the company offers a free flea dip.

Moreover, it's not just at work that pets are showing up these days. It's also at worship. St. Clement's Episcopal Church in New York City, for example, allows parishioners to bring pets, which are welcome to join in the singing—if the spirit moves them. ■



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## BUSINESS PRACTICES

## Taking The Ethical Temperature Of Entrepreneurs And Managers

In a recent survey of 165 entrepreneurs and 128 large-company business managers, the entrepreneurs proved more apt to regard certain actions as unethical. That's the finding of Robert D. Hirsch, a professor of entrepreneurial studies at Case Western Reserve University in Cleveland, who carried out the study.

The factors influencing ethical business conduct are important for the future of the U.S. economic system, says Hirsch. He notes that 74 percent of the entrepreneurs

and 71 percent of the managers said a prescribed code of ethics would help them in making decisions.

Here are actions described to the survey participants, with the percentage of entrepreneurs who said such action is unethical, followed by the percentage of business managers who made the same judgment:

■ Using company services for personal purposes: 82 percent of the entrepreneurs, 72 percent of the business managers.

■ Using company supplies for personal purposes: 93 percent and 86 percent.

■ Overstating an expense account by more than 10 percent: 99 percent and 95

percent. Overstating by less than 10 percent: 93 percent and 87 percent.

■ Using company time for personal benefit: 81 percent and 70 percent.

■ Taking longer than necessary to do a job: 91 percent and 78 percent.

■ Committing an illegal act: 53 percent and 39 percent.

Hirsch's report, *Ethics of Business Managers vs. Entrepreneurs*, is available for \$20 from the Research Institute for Small & Emerging Business (RISEbusiness), an independent, nonpartisan policy-research group in Washington, D.C.; call (202) 628-8382. ■

## MARKETING

## Targeting Customer Needs Unveils New Opportunities

After Clark Griffith purchased Medical Center Pharmacy in Scottsbluff, Neb., in 1985, he saw that his community needed an efficient supplier of home medical equipment such as wheelchairs and hospital beds.

At that time, wheelchairs came from an equipment-rental business; oxygen—another need of some in frail health—was available only from welding companies; and none of the firms delivered or set up equipment.

To provide those services, Griffith formed Medical Equipment Specialties in 1988. But soon he saw a further need—for on-site equipment repair and custom building of wheelchairs and scooters, so that patients wouldn't have to travel as far as Denver, Rapid City, S.D., or Omaha, Neb., for such services.

Griffith's expanded operation allowed patients to receive customized services within their community, typically with the help of a physician, a physical therapist, and a technician from Griffith's organization.

In 1991 he opened a second full-service facility in Torrington, Wyo., and two years later he expanded his Scottsbluff facility.

Griffith then turned to patients in rural areas and those who could not get to his stores easily. In the spring of 1996, he designed a 40-foot mobile showroom and shop. He stocked it with manual and powered wheelchairs, seating systems, a drill press, welding equipment, and a full range of tools—everything needed to build custom seating and chairs off-site.

"This was a dream I've had for a long time, ever since back in the early '90s, when I got the idea," he says. "With this



PHOTO: GLENN WILSON

*Taking medical services to people in their homes and hometowns has been the prescription for success for Clark Griffith's Nebraska firm.*

rig, we can basically build a custom wheelchair on the spot."

During an early excursion, Griffith says, the mobile crew had parked the truck and

was about to begin an appointment "when a lady in a handicapped-accessible van pulled in front of them, jumped out, and—all excited—asked, 'Do you guys work on private individuals' wheelchairs?'"

The crew said yes, he continues, and before long the crew's cellular phones "were ringing with people wanting to know when they could see the truck. We knew right then it was a success."

Now the truck, based in Casper, Wyo., is on the road four weeks out of every five.

Griffith's success in identifying a new niche for his business resulted in his being named a 1998 state honoree in the Blue Chip Enterprise Initiative, an annual program that recognizes small firms that have met challenges. It is sponsored by Massachusetts Mutual Life

Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, and *Nation's Business*. ■

## NB TIPS

### Business Help Via CD-ROM

The National Technology Transfer Center at Wheeling Jesuit University in West Virginia now offers a CD-ROM listing more than 2,300 national, state, and local organizations that provide businesses with a wide range of services and programs. Topics and areas covered include business-plan preparation, marketing, sales planning, identifying sources of funding for small businesses, and solving technical or manufacturing problems.

Information on the Business and Technical Assistance Programs CD-ROM is available from the National Technology Transfer Center, 316 Washington Ave., Wheeling, W.Va. 26003, or at its World Wide Web site,

[www.nttc.edu](http://www.nttc.edu). The CD can be ordered for \$95 by calling 1-800-678-6882.

### Career Channels

Tired of your present business and thinking of moving to something completely different? You may find some guidance in the 1998 *Career Resource Directory*. It lists more than 200 associations and organizations that can provide career and business assistance in diverse areas such as pet cemeteries, beekeeping, interior design, landscaping, and locksmithing. The publication is available for \$7.95 plus \$3.50 for shipping and handling from MGC Publications, 1208 E. Hermitage Road, Milwaukee, Wis. 53217; 1-800-531-9874. ■





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## COVER STORY

# When OSHA Calls

By Steve Bates

**O**ne morning nearly four years ago, a welder at Martin G. Imbach Inc., a marine- and heavy-construction firm in Baltimore, grabbed several respirator filters from a box in a construction trailer and walked about 75 feet to start welding a galvanized cap on a piling.

The same day, the family-run firm was visited by an inspector for the federal Occupational Safety and Health Administration. While perusing the site, which adjoins the city's historic harbor, the inspector asked the company's president, Eamonn McGeady, where to find the box that listed the instructions for using the respirator filters.

"It's right here in the trailer," McGeady recalls telling the inspector as he pointed to the nearby structure.

A federal safety regulation requires that the instructions be "available" to the worker, notes McGeady, but the inspector decided that a short walk didn't meet that definition. OSHA fined the company more than \$1,000. McGeady was stunned.

The inspection wasn't the first—and it probably won't be the last—that led to OSHA's citing the Imbach firm for what most people would say is a minor infraction of safety rules.

The company once was written up for not having exactly the right kind of skiff to act as a rescue boat alongside a floating derrick where an employee was working. The firm got slapped on the wrist for inadvertently painting over a label on a boat's fuel tank. And it was cited for having on one of its boats a warning bell that was 1 inch smaller than the required diameter.

The fines ranged from less than \$100 to a few thousand dollars each. But the money wasn't the greatest issue that concerned McGeady. It seemed to him that OSHA, with a sort of "gotcha" mind-set, was investing too much time and energy

*OSHA puts too much emphasis on going after safety-conscious employers for relatively minor infractions, says Eamonn McGeady, president of a marine-construction firm in Baltimore.*



PHOTO: T. MICHAEL KEZA



# A surprise safety inspection could put you out of business. Are you prepared?



looking for little ways to trip up honest, safety-conscious employers and not enough going after companies that might knowingly be exposing their workers to great danger.

Rather than biting his tongue and writing a check for the respirator-filter infraction, "we went to the mat," says McGeady. He appealed the citation at the OSHA district office, terming the fine "ridiculous."

The welder knew how to use the filters, the instructions were close by, and, McGeady noted, the problem cited was corrected before the inspector left the work site. At the meeting, OSHA officials tossed out the citation and the fine, but McGeady and his brother, F. Xavier McGeady, the company's vice president, left feeling frustrated with the entire process.

It's because of incidents such as this that a small sign on the front door of the company's business office reads, "Warning: If you think OSHA is a small town in Wisconsin, you're in trouble."

It's a reminder to the McGeadys and their 50 employees that they have to keep safety in mind constantly. But having a reasonably safe workplace isn't always enough, say McGeady and many other business people. They say that employers should learn everything they can about OSHA so they'll be prepared when their businesses are placed under the agency's microscope.

On any day, an OSHA inspector can show up without warning and issue citations that have the potential to put a company out of business. So it's not surprising that many business people fear the agency.

"For a small business, OSHA is an intimidating entity. You feel like you've got the sword of Damocles hanging over your head all the time," says G. John Tysse, senior vice president of the Labor

Policy Association, a business-backed public-policy organization in Washington, D.C.

Says Arthur G. Sapper of the Washington-based law firm of McDermott, Will & Emory: "You must understand: OSHA is not your friend. It's not there to help you. It's there to boss you around."

The huge volume of rules applicable to various businesses can be intimidating and confusing. "You have so many things you're trying to comply with, you're scared to death you're not complying with something you don't know about," says Jamie McAdam, president of F.J. Dahill Co., a 115-year-old structural-restoration firm in New Haven, Conn.

But there are some relatively basic steps that employers can take to prepare for an OSHA inspection, to respond appropriately during an inspection, and to seek redress if they believe they have been punished unfairly after an inspection. (See the checklist on Page 16.)

Since OSHA's creation 28 years ago, the average number of workplace deaths per year has been cut in half, and the numbers of deaths and serious injuries continue to fall. (See the charts on this page and Page 22.)

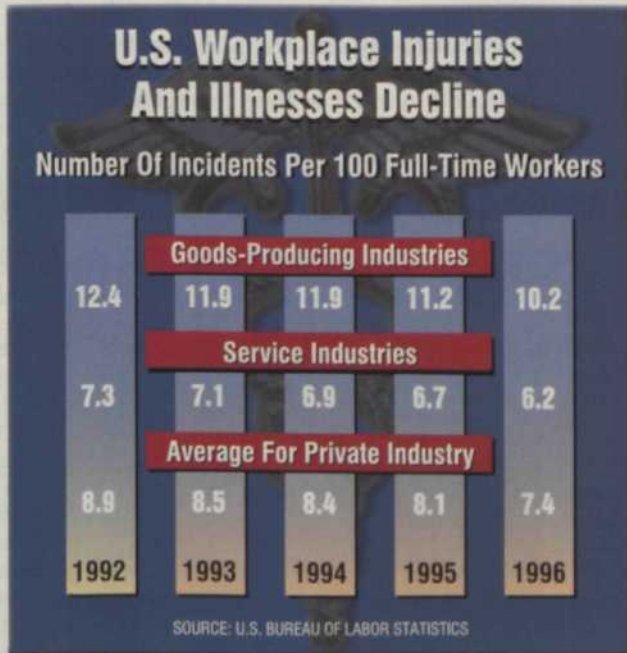
OSHA inspectors and officials "are doing a pretty good job," says Stephen D. Cooper, executive director for safety and health of the Ironworkers International Union in Washington. He and other OSHA supporters note that despite improvements by business over the years, an average of 17

deaths per day occur at U.S. job sites.

Some business people say the statistics would have dropped even without OSHA. Because of the high cost of workers' compensation and other insurance expenses, they note, there are strong economic incentives for companies to emphasize safety—in addition to the moral factors that have always motivated most business people.

Two of the leading causes of work-related deaths today are highway accidents and people using weapons at work sites—both of which are difficult for an employer to prevent.

Some business people question whether OSHA needs to prey on their fears to maximize compliance with safety and health



## An Agency's Many Faces

For many small-business people, knowing how to live with OSHA is more easily said than done. For starters, there are many different OSHAs.

The agency enforces federal safety regulations directly in only about half the states; state officials enforce the rules in the others. (See the map on Page 18.)

Business people and organizations say that, in addition, they have seen marked differences in how the rules are enforced from region to region and even within a single workplace. One inspector may find no problems at a work site while another from the same office might write up a dozen citations at the same location.



## COVER STORY

standards. "We all want people to go home at the end of the day," says Carl Heinlein, safety director of Associated General Contractors of America, a trade group based in Washington.

For several years the Clinton administration has been attempting to "reinvent" OSHA by making it more employer-friendly. The agency often has reduced fines for violations by companies with fewer than 250 workers, and it funds on-site safety consultations for small and medium-sized businesses.

However, many business people and organizations say OSHA is still sending mixed signals. It continues to wield a big stick as a deterrent for firms that don't make legitimate efforts to avoid accidents—which even OSHA believes is a small percentage of U.S. businesses.



PHOTO: STODD BUCHANAN

*Olsson Roofing Co. brought in safety experts and agreed to meet high safety standards in exchange for exemption from regular OSHA inspections, but the cooperative program turned sour, says William C. Glenn, the company's president.*

In an eight-day span this past May, the agency proposed fines totaling more than \$900,000 against a New Hampshire bridge-construction firm and a Kansas electric utility, both of which had accidents

said, "there's a chance you could get more citations, more fines, more hassle, and no more safety."

Moving toward cooperative programs with business—and potentially reducing

in which workers were killed. In each case, OSHA sent out news releases touting its stern sanctions.

Over the years, the numbers of inspections and the volume of fines have been used at times by members of Congress to measure the performance of inspectors and the agency as a whole.

In a 1995 speech, President Clinton drove home his point that OSHA needs to be changed to make it friendlier toward employers. "If the government rewards inspectors for writing citations and levying fines more than [for] ensuring safety," he

## Tips For Dealing With An OSHA Inspection

The following tips for dealing with the Occupational Safety and Health Administration were compiled by Edwin G. Foulke, an attorney in Greenville, S.C., with the firm of Jackson, Lewis, Schnitzler & Krupman.

Foulke is a former chairman of the Occupational Safety and Health Review Commission, which handles appeals of OSHA citations that are not settled by OSHA and the cited businesses.

### Before An Inspection

- Display the official OSHA poster where notices to employees are usually posted.
- Determine which OSHA standards and regulations apply to your work site; make sure that all required written programs and documents are up-to-date.
- Conduct a survey of your work site to find and correct possible safety or health violations.
- Assign responsibility for safety and health compliance to a management official.
- Establish a crisis team to deal with catastrophic occurrences, fatalities, and OSHA-related publicity.



PHOTO: OLINDA STETLER

*There are right and wrong ways to deal with OSHA, says attorney Edwin G. Foulke.*

- Ensure that you are in compliance with all record-keeping requirements and that records are kept in an accessible area.

### During An Inspection

The following suggestions cover the three basic stages of an official OSHA visit.

1. **Initial Contact And Opening Conference.**
  - Refer the inspector—immediately

upon arrival—to your designated safety officer.

- The safety officer should review the inspector's credentials and request a business card with an address and phone number to ensure that the visit is an official OSHA inspection.

- Ask the inspector to state the purpose, scope, and circumstances of the visit, and determine if the inspector has a warrant.

- Notify your OSHA counsel of the visit.

- Have an opening conference with the inspector and establish the focus and scope of the planned walk-around inspection; any designated trade-secret areas; the procedures for conducting employee interviews and producing documents; the schedule of interviews; the documents that OSHA will review; and the rules and procedures OSHA will be expected to follow.

### 2. Walk-Around Inspection.

- Your safety officer should stay with the inspector at all times, taking notes on things such as items discussed and names of employees interviewed.
- Take photos of areas inspected



the numbers of inspections and citations—would be a paradigm shift for OSHA. "It's hard to teach an old dog new tricks," says Craig Brightup, a spokesman for the National Roofing Contractors Association, a Washington-based trade group. "But this agency is always going to be here. The question is: How can we make it better?"

### The Nature Of "Cooperative"

Last November, OSHA unveiled its Cooperative Compliance Program (CCP), a nationwide initiative aimed at about 12,000 employers in relatively dangerous industries. OSHA informed the companies that they would be less likely to face safety inspections if they entered the program.

In exchange, the firms would pledge to go beyond what OSHA regulations typically require of them by involving employees in identifying workplace hazards and by establishing formal safety programs.

The CCP initiative marked "a watershed change in approach" to enforcement by the agency—but a flawed one, says Baruch A. Fellner, an attorney with Gibson, Dunn & Crutcher in Washington.

Fellner's firm filed a lawsuit on behalf of the U.S. Chamber of Commerce and other

**OSHA's Cooperative Compliance Program, designed to target the most dangerous workplaces but put on hold by a federal appeals court in Washington, carries "no penalty for employers who elect not to join."**

—OSHA Administrator  
Charles Jeffress



PHOTO: T. MICHAEL KEZA

business groups, claiming that the program was coercive and that it was established without adherence to federal procedures for promulgating regulations.

Companies that did not join the program could receive earlier—and more thorough—inspections, the suit says. It claims that the program represents an attempt to enforce safety rules that have not been subject to required public comment and hearings.

"I have heard several reports of OSHA officers calling employers and warning them how extensive and onerous inspections would be if they did not join OSHA's program," says Fellner. He adds that OSHA failed to identify some of the companies with the worst records of accidents and illnesses as candidates for the CCP.

In February, the U.S. Court of Appeals for the District of Columbia Circuit blocked the program, for which almost 90 percent of eligible firms had signed up.

The lawsuit isn't expected to be resolved before December. In the meantime, OSHA has implemented a backup plan for targeting potentially dangerous workplaces for inspections.

Some business organizations say many companies signed up for the CCP believing that if they did not, they would be subject to OSHA's wrath. "The message was: 'You can cooperate, or we'll kill you,'" says Charles Maresca, director of legal and regulatory affairs for Associated Builders and Contractors, a trade group based in Arlington, Va.

OSHA officials refused to be interviewed for this article because the U.S. Chamber, which publishes *Nation's Business*, is a plaintiff in the suit over the compliance program.

However, in a House of Representatives subcommittee hearing in May, the agency's administrator, Charles Jeffress, said the cooperative program is a good deal for companies. "There is no penalty for employers who elect not to join the CCP," Jeffress, an assistant secretary of labor, told the Oversight and Investigations Subcommittee of the House Education and the Workforce Committee. "I am puzzled why this program was challenged."

John J. Sweeney, president of the AFL-CIO, was less restrained in his reaction to the suit. "The U.S. Chamber of Commerce's efforts to stop OSHA's high-hazard-industry targeting and Cooperative Compliance

and/or photographed by the inspector, and use a video camera if the inspector is using one.

- To the extent possible, correct immediately any violation identified by the inspector.

- No management official should give information to the OSHA inspector before receiving approval from your safety officer.

- Your OSHA counsel should review all requests from the inspector for documents and information as well as the documents and information you provide to the inspector.

- Ask the inspector for copies of all photos and videos recorded by OSHA.

- Ask the inspector for duplicates of all physical samples taken by the inspector.

### 3. Closing Conference.

- Request copies of all sample reports from the inspector.

- Provide any additional information relevant to and supportive of your position.

- Ask the inspector for a receipt acknowledging the documents that you have provided.

- Take notes on problem areas indicated by the inspector, along with the applicable standards and suggested

abatement procedures.

- Give the inspector the name, title, address, and phone number of the employee who should receive correspondence.

### After An Inspection

- Review all topics of concern identified by the inspector, and make appropriate changes.

- Give your OSHA counsel copies of all documents you provided to OSHA and all notes, photos, and videos taken during the inspection.

- Your OSHA counsel should make a written request to OSHA to ensure that any trade secrets and proprietary information that your firm disclosed during the inspection are kept confidential.


- If you are issued one or more citations by OSHA, post each citation in the affected area and wherever safety notices are normally posted; notify your OSHA counsel immediately and send the counsel a copy of each citation; and confer with your OSHA counsel and schedule an informal conference with OSHA.

- If an agreement cannot be obtained quickly, you should consider filing a written notice to contest the citations within 15 working days of the date you received them.



One of the most significant proposals would allow businesses to bring in independent inspectors certified by OSHA to





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## COVER STORY

minor infractions that he thought about challenging but didn't. In some cases, the violation was clear—and, in McGeady's opinion, petty—such as the painted-over label on a fuel tank. In others, the expense of challenging the proposed fine would have far exceeded the fine itself. "Those were business decisions," he says.

McGeady says OSHA needs to rethink its priorities. "I could go on any job site at any time and find an OSHA violation that would warrant a citation," says McGeady, echoing comments of other business people. "Is the purpose [of OSHA] to write citations and hit employers over the head with a baseball bat, or is it to make the workplace safe? Let's do it like rational people."

McGeady and millions of other business people might soon have to deal with another set of workplace standards—on ergonomics, the science of body trauma associated with frequently repeated motions such as lifting heavy objects or typing on keyboards.

Research has shown a clear connection between some job tasks and the injuries or illnesses that some workers incur. But specifying just how many repetitions of a

specific task, during a specific period, are safe is tricky.

Employers and business groups reacted strongly against a draft of a proposed standard on ergonomics that OSHA unveiled in 1995. Concern was so high that Congress prohibited OSHA from establishing such a regulation through the current fiscal year, which ends Sept. 30. OSHA says it likely will release another draft ergonomics proposal by the end of 1998.

The business community remains wary. "A good part of the rules OSHA enforces are highly subjective," says Keith Lessner, vice president of the Alliance of American Insurers in Downers Grove, Ill. "Ergonomics would be even more subjective."

OSHA chief Jeffress and other agency of-



PHOTO: (TOM SOBOLUK—BLACK STAR)

**OSHA should focus more on helping employers reduce workplace hazards, says Frances Bacardi, president of a New Jersey construction company.**

ficials say they remain committed to establishing reasonable ergonomics standards, adding that they have been enforcing such rules for years. They say that ergonomic illnesses cost businesses about \$20 billion per year in workers' compensation costs and that the indirect

costs of such physical problems could be as high as \$100 billion annually.

### A Lesson With A Sting

Frances Bacardi, president of Minasa Construction Co. in Lyndhurst, N.J., was in business only a few months before she

## Congress Gets Into The Act

Several pieces of legislation designed to change the way the Occupational Safety and Health Administration does business have been introduced in Congress this session, and two of them have been approved by both houses. However, the most far-reaching and controversial proposal, known as the SAFE Act, is stalled in both chambers.

The legislation, whose full name is the Safety Advancement for Employees Act, would encourage OSHA to work with employers to identify and correct potential safety and health hazards.

Introduced late last year, it would allow independent safety auditors to visit workplaces and recommend improvements to business owners. If an employer made recommended changes and if no fatalities or serious nonfatal accidents occurred at the company after the audit, the firm would be exempt from OSHA penalties for two years.

Critics—including labor unions and some congressional Democrats—say the measure would put the fox in charge of the henhouse. They say that some inspectors, because they would be paid by the businesses they inspected, would overlook possibly serious health hazards.

"We are pressing for stronger enforcement of job-safety laws to deter viola-

tors and punish those who jeopardize workers," says Robert A. Georgine, president of the Building and Construction Trades Department of the AFL-CIO, based in Washington, D.C.

Supporters of reforms such as the SAFE Act say that because OSHA and state inspectors can reach only a small fraction of U.S. companies each year, the improvement in safety at the majority of job sites visited by private inspectors would outweigh the possible abuses at a small number of businesses.

"There is a consensus that the 'big stick' policies of OSHA have not worked," says Rep. James M. Talent, R-Mo., who introduced the SAFE Act in the House. "We need to shift OSHA's focus toward working with employers and allowing the agency to focus on the 'bad actors.'"

Most Democrats in Congress, along with at least 20 Republican legislators, regularly support organized labor's positions, so any measure that is viewed as weakening OSHA will be opposed vigorously.

"It's a tough climb," says Coy Knobel, an aide to Sen. Michael B. Enzi, R-Wyo., who has introduced a version of the SAFE Act in the Senate. "It could have a huge impact. But anything involving labor can be highly contentious."

This year Congress did pass two amendments to the 1970 Occupational Safety and Health Act, the landmark law that established OSHA's mandate. OSHA is now barred from using citation or fine statistics to evaluate an agency inspector's job performance—a practice that OSHA says doesn't occur. And more money will be available for a program that provides free safety advice to businesses in some states.

Other measures pending in Congress would:

- Require that an independent scientific panel review the data that OSHA uses to create a new standard or rule.
- Give employers the right to withhold from OSHA some records that the companies create while evaluating their own safety efforts.
- Force OSHA to conduct a cost-benefit analysis of how a new regulation would affect industry.





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## COVER STORY

got an expensive lesson in the importance of knowing what OSHA requires and how it operates.

In 1994, she won a contract to demolish some above-ground natural-gas storage tanks, and she hired three men experienced in using acetylene torches. On the third day of the project, she discovered that because the tanks had once been painted with lead and still contained traces of the dangerous metal, the workers should have their blood tested for possible lead contamination.

A medical service found that all three had unacceptably high levels of lead in their blood; she got them into medical treatment.

Bacardi knew that the workers had been exposed to lead for years during previous jobs, so she didn't think anyone would hold her responsible for that contamination. Two months later, OSHA arrived in force. Officials demanded that Bacardi set up a laboratory type of environment for the work and that employees wear better contamination-resistant suits than she had provided.

OSHA fined her \$135,000. Bacardi was crushed, and her business teetered on the brink of insolvency.

"It was the worst thing that had happened to me," she says. She says that although she eventually persuaded OSHA to reduce the fine to about \$20,000, the incident cost her many times that amount, in large part because of a six-figure increase in her workers' compensation insurance premium the year after the incident. "I'm still feeling the effects," she says.

Before her first contact with OSHA, she had no complaint about the agency. Her current opinion: "It's brutal. ... They're out to get you. You try to do the right thing. If I didn't take the blood tests, there probably would have been no problem." Bacardi says that OSHA should spend more time and effort helping employers reduce workplace hazards.

### The Need To Be Ready

As Bacardi, McGeady, and other business people have learned, there are some basic steps that employers can take to prepare for an unexpected visit by OSHA. (See "Tips For Dealing With An OSHA Inspection," on Page 16.)

Above all, "don't overreact" when an inspector shows up, says Edwin G. Foulke Jr., a former chairman of the federal Occupational Safety and Health Review Commission, which handles cases not resolved in discussions between companies and OSHA.

Foulke, an attorney with Jackson, Lewis, Schnitzler & Krupman in Greenville, S.C.,

unless it involves paperwork."

If you plan to appeal a citation, you must do so in writing within 15 working days after you receive the citation. "If you need to go beyond 15 working days, file a notice that you will contest—within 15 working days," says Sapper.

"You can try to reach a settlement of the citation within that period, but if you need more time to do so or decide you want a hearing, you must file a written notice of contest before the period expires," Sapper adds. "You can always settle later on."

How far to appeal a citation is a difficult question. Sometimes it's easier to pay the fine and avoid high legal bills and time diverted from work, legal experts say. But there are times when it pays to keep fighting.

"Often you can't just pay the fine and forget about it," says Feller of Gibson, Dunn & Crutcher. "Employers are finding a citation from two years ago coming back to haunt them in return visits" by inspectors checking to see whether old problems have been cleared up.

## Fatal Injuries On The Job

Number Of Deaths From Workplace Injuries,  
By Type Of Cause

	1992	1993	1994	1995	1996/Percent Of Total
Transportation Incidents	2,484	2,501	2,762	2,587	2,556/42%
Assaults And Violent Acts	1,281	1,329	1,321	1,280	1,144/19%
Contact With Objects Or Equipment	1,004	1,045	1,017	916	1,005/16%
Falls	600	618	665	651	684/11%
Exposure To Harmful Substances	605	592	641	609	523/9%
Fires And Explosions	167	204	202	207	184/3%
Other	76	42	24	25	16/-
<b>Total Fatalities</b>	<b>6,217</b>	<b>6,331</b>	<b>6,632</b>	<b>6,275</b>	<b>6,112/100%</b>

SOURCE: U.S. BUREAU OF LABOR STATISTICS

says it's almost impossible to be perfect—"every site has the potential for something to go wrong"—so employers should be professional in their dealings with OSHA and hope for the best.

But be cautious about what you say, says W. Scott Railton, an attorney with Reed Smith Shaw & McClay in McLean, Va. "All too often, when an OSHA inspector comes to do an inspection, the employer says, 'Take a look around.' That's a dangerous thing to do.

"The OSHA inspector should always be accompanied by a person from management. A lot of times [the inspector] will just suggest what an employee should say [about a potential hazard]. Don't admit to anything. If you admit a violation, you're dead."

Says Foulke: "You do want to indicate that you have a safety program in place, that you do care. Present a positive image as best you can, but don't overstate your position."

Sapper of McDermott, Will & Emory says: "Don't argue with an OSHA inspector. Answer all his questions respectfully." If you are cited, he says, remember that "a 'serious' violation is not saying you're a bad guy; almost everything is 'serious'

**S**mart employers such as McGeady know that they alone can't ensure a safe workplace. They depend upon employees to hold up their end in the effort to avoid injuries.

"When you come across something that's dangerous, you stop," says Mike Bauer, 24, a dock builder at McGeady's firm. "Nobody around here is afraid to say something."

Ralph D. Neale, 40, a welder at the company, says, "There are times when what you're doing is kind of dangerous." Neale says he nearly lost a finger in an accident when he was new to the business, and he hasn't forgotten the lesson that risks are there every day.

"Any accident can be fatal," says McGeady. "Don't treat it casually." Like many other business people, he knows that a safe workplace is the best defense against OSHA—and the best policy.

But if OSHA does come to call, he says, "be concerned but not frightened." And never confuse the agency with a small town in Wisconsin. **1B**



To order a reprint of  
this story, see Page 78.  
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# Small Business Financial Adviser

*Retirement plans' high-impact fees; salary vs. distributions; small firms' pension gap; lawyers on call.*

## Your 401(k) Plan May Cost You Too Much

By Randy Myers

Is your company's 401(k) plan a good deal? Don't be too quick to say yes. Sure, the 401(k) has become one of the crown jewels of employee benefits. Nearly two-thirds of Americans are counting on them, along with other employer-sponsored retirement programs, to serve as

reflects the fact that there are many types of 401(k) vendors, including mutual-fund companies, insurance companies, commercial banks, investment banks, and independent third-party administrators.

Each structures its fees somewhat differently, and each can be competitive in certain niches of the market. But employers who choose their provider haphazardly

plan] was a very happy, big surprise," says Bruce Jones, the company's vice president for finance and administration.

### How The Products Are Priced

To understand where Creative Computer is saving money, it helps to know how 401(k) vendors price their products.

There are two primary components to every 401(k) fee schedule. The first, and the one that most employers focus on because typically they pay for it, consists of administrative costs. This covers items such as record keeping and communicating with plan participants.

The second, more-critical component is the investment-management fee, which is levied as a percentage of the plan's assets and is paid by plan participants. According to HR Investment Consultants, these asset-based fees account for almost 75 percent of total plan costs for the average 25-person plan and 85 percent of the costs for the average 100-person plan.

"If the investment-management services are being provided by the mutual-fund industry, the investment-management fee is embodied in the expense ratio of the mutual funds available to the plan participants," says Stephen Butler, president of Pension Dynamics Corp., a 401(k) plan administrator in

Lafayette, Calif.

"If the investment-management services are being provided by the insurance industry, it's the expense ratio of the funds plus some kind of annuity wrap fee." Insurance companies sell 401(k) plans "wrapped" by an annuity, which adds administrative expenses.

For Creative Computer's 401(k) plan, investment-management services had been provided by a major insurance company. Today, it uses First Data Corp., a Rockville, Md., financial-services firm, to provide its plan participants with an array



PHOTO: CLINDA BUE SCOTT

By changing vendors for the 401(k) plan at Creative Computer Solutions in Pleasanton, Calif., Bruce Jones, center, finance vice president, cut costs more than \$16,000 a year. Here he confers with Suzanne Riggs, senior accounts manager, and Phil Toler, systems technician.

their primary source of retirement funds, according to the Certified Financial Planner Board of Standards in Denver.

But just because your employees appreciate their 401(k) plan doesn't mean it's a bargain. According to HR Investment Consultants in Towson, Md., publisher of the *401k Provider Directory*, the cost of running a 401(k) plan with 25 participants and \$750,000 in assets can range from as little as \$6,750 per year to as much as \$20,000, depending on which 401(k) vendor you select.

The tremendous variation in plan costs

from this melange of vendors often wind up paying more than they should.

Creative Computer Solutions Inc., a Pleasanton, Calif., software company, is a good example. The company didn't realize that it was paying too much for its \$1.5 million 401(k) plan until dissatisfaction with the service it was receiving prompted it to look for a new vendor. It found one and, effective July 1, is saving itself and its employees more than \$16,000 per year in administrative and investment-management costs combined.

"The financial advantage [of the new





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## SMALL BUSINESS FINANCIAL ADVISER

of mutual funds as investment options. Those funds carry investment fees nearly a percentage point lower than those charged by the previous vendor, says Jones.

Pension Dynamics, meanwhile, acts as the administrator of the plan, a move that is saving the company about \$2,500 a year

Thus far, the department has not issued any new regulations, but in July, Labor Secretary Alexis Herman introduced a new consumer publication, *A Look at 401(k) Plan Fees*. The publication is available free by calling the Labor Department at 1-800-998-7542 or by visiting its Web site at [www.dol.gov/dol/pwba](http://www.dol.gov/dol/pwba).

says Guy Patton, senior vice president of Boston-based Fidelity Institutional Retirement Services, a subsidiary of Fidelity Investments. "You have to look at the total costs associated with a program. The axiom that there's no free lunch holds true in this case."

Moreover, administrative fees paid by the company are tax-deductible to the business, while asset-based investment-management fees are paid by participants with after-tax dollars. Often the largest account balances in a 401(k) plan are those of the firm's owners and managers, so when investment fees are exorbitant, the owners and managers feel the pinch just as their employees do.

Linda Wauson, a consultant with Watson Wyatt & Co. in Houston and its central-region practice leader for defined-contribution services, recommends that employers look at administrative and investment-management fees together when evaluating 401(k) plans to get the

whole picture. In addition, she suggests weighing a la carte fees that might be charged to plan participants on a per-use basis, such as fees for taking a loan against their 401(k) account.

Wauson also says employers should beware of hidden costs that never show up as a hard expense. For example, some 401(k) vendors pay below-market returns on the money-market funds they offer as an investment option to plan participants. While this doesn't cost the employer any-

thing, each participant who puts money into one of those low-yielding funds loses earning power.

#### Determining What You Pay

Given that there's no standard method for presenting the costs of 401(k) plans, figuring out what you're paying for your plan—or what a

competing vendor might charge you—can be difficult. But there are some rules of thumb that can help you.

"The key is to know your plan," says David W. Huntley, principal at HR Investment Consultants. He notes, for example, that insurance-company providers often charge some of the highest investment-management fees but some of the lowest administrative costs in the industry.

If your plan is just getting started and doesn't have much in the way of assets, you may benefit from such a pricing structure. But watch out for plans that levy

## Why 401(k) Management Fees Matter

Each plan started with a zero balance, received contributions of \$200 a month, and earned 10 percent per year before expenses.

Value Of Account After	20 Years	30 Years	40 Years
Annual Fee 1%	\$133,577	\$366,149	\$936,264
1.5%	\$125,400	\$330,141	\$807,730
Difference	\$ 8,177	\$ 36,008	\$128,534

SOURCE: Nation's Business

in administrative costs. (While Creative Computer chose to have a separate administrator and investment adviser, it is possible to buy both services in a bundled package from mutual-fund companies, insurance companies, and banks.)

Despite the disproportionate role that investment fees play in determining total 401(k) costs, plan sponsors often pay scant attention to them, for several reasons:

- The investment fees are charged to plan participants rather than to plan sponsors, so there's no hit to the employer's bottom line.

- The investment fees are obscure. Plan sponsors aren't required to report them, and some don't.

- Even among sponsors who report the fees, not all do so the same way, and they rarely provide a line item on participant statements showing what the investment fees are in dollars and cents.

Instead, the fees—which vary from one investment option to the next—are simply deducted from the plan's earnings before its performance figures are reported. Thus, a mutual fund with a 1 percent investment-management fee that earned 10 percent before expenses last year would simply report that it earned 9 percent.

#### Addressing The Cost Issue

Concerned that investors don't understand all this, the U.S. Department of Labor earlier this year hosted hearings at which it solicited suggestions for improving the way plan sponsors communicate cost information to 401(k) participants.

Investors haven't raised much ruckus over the cost issue, in part because so many of them don't understand how much they're paying. Their seeming lack of interest has been compounded by the fact that the stock market has been on a heady bull run for three years. With their account values soaring, few 401(k) participants have been inclined to worry about costs.

That could change if the Labor Department initiative keeps media attention focused on the topic, or when the bull market finally stalls. After all, money spent on needlessly high investment fees is money that otherwise would have been compounding, tax-deferred, for the benefit of plan participants.

"Even an extra half percent charged against [plan] earnings can turn into a huge amount of money over a period of, say, 20 years," says Butler.

Because investment-management companies' earnings through asset-based fees grow as their customers' 401(k) accounts grow, some are starting to reduce or even waive the other component of their charges—administrative fees—for plans approaching \$1 million or more in assets.

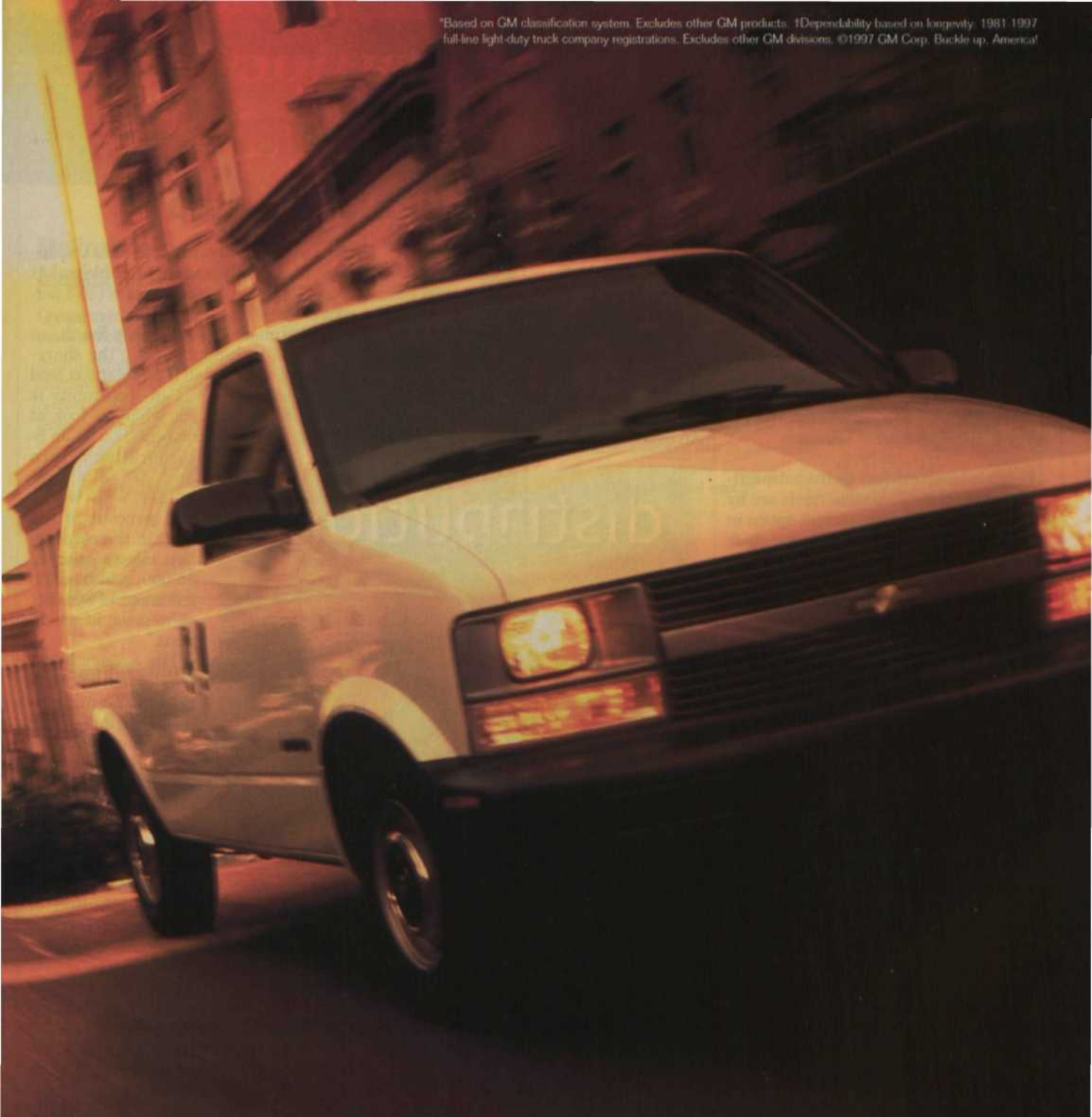
These apparent price breaks appeal to penny-conscious business owners, but over the long haul the waivers may not make sense for them individually or for their companies.

"I don't think you should consider [a waiver of administrative fees] a break,"

This is  
the first in  
a three-part  
series on  
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surrender charges when you terminate them. Those costs, and the hassle of changing providers, could outweigh the short-term benefits of an insurance company's fee structure.

As your plan approaches the \$1 million plateau, Huntley says, you may find good values at mutual-fund companies that charge upfront sales loads to individual investors. That's because they'll typically waive the sales loads for large-volume 401(k) customers while still allowing you to benefit from the low-cost administrative structure made possible by the sales loads paid by other customers.

Here are two more suggestions for savvy 401(k) shopping:

**Pay close attention to investment-management fees.** Mutual funds are by far the most popular investment option in 401(k) plans. The average domestic stock fund carries an expense ratio of 1.4 percent, according to data compiled by Morningstar Inc., a Chicago-based fund-research company.

But Butler says you should be wary of paying more than 1 percent in your 401(k) plan. You should pay even less for stock-index funds, which mimic the performance of popular benchmarks such as the Standard & Poor's 500-stock index. Their expense ratios typically range between 0.25 and 0.5 percent.

Expect to pay a little more than the domestic stock-fund expense ratio for international stock funds (the average expense ratio is 1.84 percent, according to Morningstar) and a little less for bond funds (the industry average is 1.07 percent).

Keep in mind, of course, that a low expense ratio may be no bargain if the fund hasn't performed well. Real value comes from funds that combine low expenses with solid performance.

**Keep it simple.** Fancy extras such as Internet access, paperless loan services, and large numbers of investment options can drive a plan's costs higher. Turnkey 401(k) plans from mutual-fund companies and other big providers often provide all of the basics and more, including niceties such as daily valuation of account balances, for one low fee.

"To the extent that you can attract and retain employees with relatively simple features in your plan, go with simple features," says Fidelity's Patton. "Our experience is that you can have a very competitive plan and still keep it relatively simple."

*Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.*

## COMPENSATION

# The Question Of Payment For S Corporations' Owners

By Gloria Gibbs Marullo

If you own an S corporation, you have two ways to pay yourself: salary and distributions. As a general rule, S-corporation owners strive to minimize salary and maximize distributions because a loophole in the tax law exempts distributions from employment taxes. But beware. An overly aggressive approach to paying

owns in the corporation. Because the distribution is exempt from employment taxes, she saves \$3,060 in taxes (15.3 percent of \$20,000).

"Unfortunately," says Woody Smith, an IRS agent in Indianapolis, "the shareholders of many small S corporations tend to see distributions as an opportunity to reduce FICA taxes. So when we look at the line for officers' compensation on an S-

corporation return and see a shareholder who works 100 percent of his time in the corporation, takes a salary of \$5,000, and has distributions of \$60,000, we're going to get curious."

The agency has a long-standing interest in examining S-corporation distributions closely. In a landmark case that set the governing precedent, a lawyer set up his practice in 1982 as an S corporation, and, as sole shareholder and only

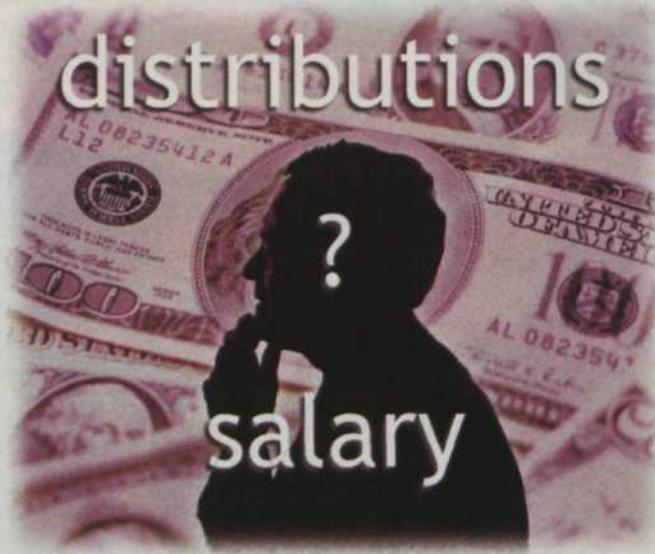
employee, he took a distribution of \$18,225 but paid himself no salary. The IRS challenged the distribution, arguing that it was disguised wages. The courts agreed, and an important precedent was set.

"The key to avoiding problems with the IRS," says Mark Christopher, a CPA and senior tax partner with Moss Adams in Seattle, "is to set a reasonable salary." Typically, reasonableness is determined by looking at the salaries of business owners of similar companies that are not S corporations. (See "Setting The Size Of Your Paycheck," July.)

Christopher advises the owner-employees of profitable S corporations to use the Social Security FICA limit as a rock-bottom guide for salary. "If you pay yourself at least \$68,400 in 1998," he says. "I doubt you'll raise red flags with the [IRS]."

*Gloria Gibbs Marullo is a CPA and business writer in South Bend, Ind.*

*Small Business Financial Adviser continues on Page 30.*



distributions can trigger an Internal Revenue Service audit.

Salaries and bonuses paid by an S corporation are classified as wages subject to employment taxes. But distributions are considered a return on investment and are not subject to employment taxes. The IRS is quick to challenge distributions as disguised wages.

"What's at stake," explains Jeff Pannell, a partner and CPA with Clark Nuber in Bellevue, Wash., "is the FICA taxes on the distribution reclassified as wage income."

For S-corporation owners and self-employed individuals, the FICA (Federal Insurance Contribution Act) tax this year totals 15.3 percent on the first \$68,400 in wages. (The Social Security tax is 12.4 percent, and the Medicare tax is 2.9 percent. There is no wage ceiling on the Medicare tax.)

For example, an S-corporation owner pays herself \$60,000 in annual salary. On that amount, she and the corporation pay combined FICA taxes of 15.3 percent, totaling \$9,180. She takes a \$20,000 distribution as a dividend on the stock she



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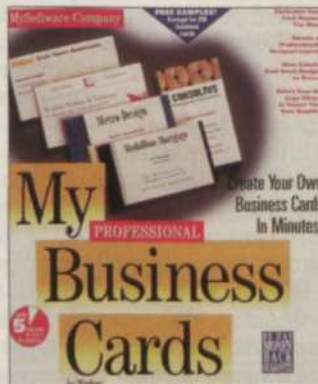
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## BENEFITS

# Small-Firm Pension Gap Reflects Lack Of Demand

A new survey has found that cost and complexity are not the only reasons for the so-called pension gap between large and small businesses. Workers' lack of interest is also a surprisingly big factor in explaining why so few small employers provide retirement benefits.

Unless employee attitudes change, about 25 million Americans who work for small employers and are not covered by a retirement plan can expect a "bleak" retirement, according to the Employee Benefit Research Institute. EBRI, based in Washington, D.C., sponsored the survey. Thirty-six percent of the nation's work force consists of small-business employees who don't have retirement benefits of any kind.

Twenty-nine percent of employers with 100 or fewer workers offer their employees some sort of retirement benefit, compared with 83 percent of employers with more than 100 workers, according to the EBRI survey, which the organization says is the first of its kind to focus exclusively on small employers.

At small companies that offer retirement-savings plans, only 21 percent of workers participate in them. That com-

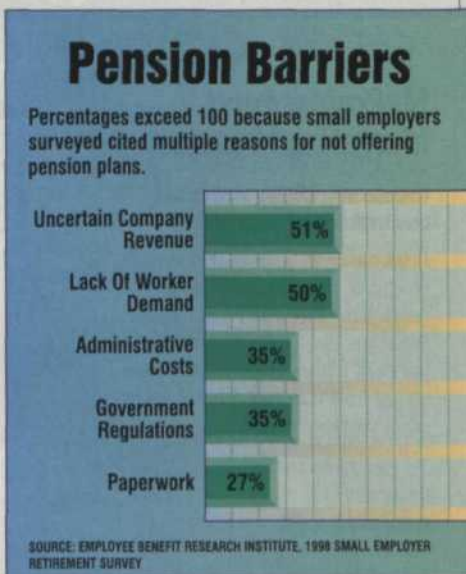
pared with 64 percent participation among workers at larger companies.

Small businesses that do not offer retirement plans tend to have a younger and lower-paid work force with higher turnover, so these employers see the lack of retirement benefits "as having little impact on their employees," the survey noted.

To increase the number of small companies offering retirement plans, "we must address cost concerns of employers and increase demand for such programs among employees," said Dallas L. Salisbury, EBRI's president, in releasing the Small Employer Retirement Survey.

Employers "feel little pressure from their workers to institute retirement plans," the survey found. When the employers who do not offer plans were asked why, 50 percent said their workers preferred to get higher pay or other benefits, such as health insurance.

Equally important to employers is the cost of retirement plans. Fifty-one percent cited uncertainty about their firm's revenue prospects as the major reason for not offering a retirement plan. Other key reasons cited were the high cost of setting up and administering a retirement plan (35



percent), excessive government regulations (35 percent), and the administrative burden (27 percent).

—Stephen Blakely

The author is a free-lance writer in Washington, D.C.

## ADVICE

## Legal-Services Plans For Small Firms

Two companies that sell group legal services are now going aggressively after the small-business market nationwide. They are offering plans that include unlimited calls to lawyers and business consultants plus discounts on products such as office supplies and casualty insurance. Until recently, these plans were sold primarily to large corporations and associations.

"We're bundling together a whole menu of services for small-business owners," says Sandra DeMent, president of Advisory Communications Systems (ACS), based in Lanham, Md.

DeMent's company has arrangements with about 16,000 lawyers nationwide. For an \$89 quarterly fee, you can call a lawyer as many times as you want about matters such as debt collection and advice on firing an employee. In addition, lawyers will write

letters for you on their letterhead.

If you have a tax question or other financial problem, your call will go to staff consultants with the national accounting firm Ernst & Young. It's all included in the fee.

"We're also working with retailers to provide our members with deep discounts on a whole line of services and products," DeMent says. Philadelphia-based Reliance National Insurance Co. provides all the ACS services free when you buy small-business liability and workers' compensation policies from Reliance.

ACS small-business plans also include unlimited calls to lawyers to discuss personal legal problems.

The second firm, Prepaid Legal Services (PLS), has joined forces with the Atlanta-based Fran Tarkenton Small Business Network to provide a wide array of legal and other services for small

companies. PLS is based in Ada, Okla.

"You just pick up the phone and talk to a lawyer or business consultant without worrying about how much it's going to cost you," says Jeff Cordle, Tarkenton's sales manager, adding that "it's like having these people on a retainer."

The Tarkenton/PLS legal plan costs \$69 a month and includes many other services and products that are free or discounted. Included are things such as calls to accountants, group insurance coverage, call-in help for establishing a World Wide Web site, and free software.

Tarkenton's plans are limited to businesses that have no more than 20 employees and gross no more than \$2 million a year. Not all parts of the plan are available in all states.

For more information on services and prices, call ACS at 1-800-535-1182 and Tarkenton/PLS at 1-800-796-1118.

There are many regional and local legal-services companies popping up with plans for small businesses. They can usually be found in the classified phone listings under "Legal Services."

—Peter Weaver

The author is a free-lance business writer in Bethesda, Md.



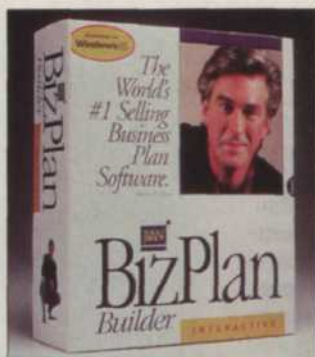


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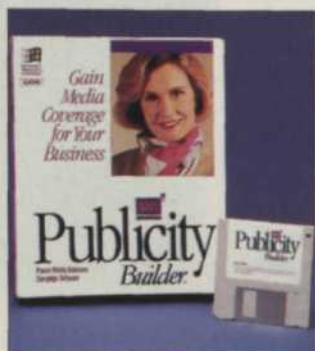
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## MANAGING

# Reviewing The Annual Review

By Michael Barrier

For many business people, Jeffrey Pfeffer suggests, doing an annual performance review of their employees is comparable to "filling out your income-tax form. It's not a process that anybody likes, but you've got to do it."

The problem is, "if you're doing it in that spirit, it cannot possibly have any positive effects," says Pfeffer, the Thomas D. Dee professor of organizational behavior at the Stanford Graduate School of Administration.

Written performance reviews have been an important tool for managing employee performance for decades. According to *The Wall Street Journal*, retailer Lord & Taylor was the first to use them, in 1914. But surveys in recent years suggest that many companies do in fact find them about as helpful as income-tax forms.

For example, a 1997 nationwide survey of human-resources professionals by the Society for Human Resource Management, based in Alexandria, Va., found that only 5 percent of the respondents were "very satisfied" with their organizations' performance-management systems, while 42 percent were dissatisfied to some extent.

The anecdotal evidence of discontent with performance reviews is even stronger. Says Tom Morris, president of Morris Associates, a Washington, D.C., consulting firm that has provided career-management services to many companies: "Almost universally, the bosses are late getting them done and hate doing them. I think they're the ones who have a bigger problem with them than the employees."

Jeffrey Stoner, a senior consultant with Personnel Decisions International, a Minneapolis-based consulting firm, concurs. "Giving good feedback, and giving performance feedback, is not a natural act," he says. "It's something that managers will avoid if they can."

## "It's Hard To Be Honest"

Performance reviews are hard to do well, says John Challenger, executive vice president and general manager of Challenger, Gray & Christmas, a Chicago outplacement firm. "In any kind of human relationship," he says, "it's hard to be honest." Beyond that, "you certainly can send some people reeling, and worsen their performance, by being brutally hon-

est about their faults."

Because performance reviews can inflict such pain, an employer might be tempted to ease off in a written review and soft-pedal criticisms—and that can be a fatal mistake if an employee is subsequently fired and brings a suit for wrongful discharge.

Says James A. Burns Jr., who represents management in employment cases as an attorney with the Chicago law firm Katten Muchin & Zavis: "In every case in which an employee was terminated for unsatisfactory performance, the refrain I hear from the employee in the deposition is, 'Nobody ever told me what I was doing wrong.'"

"Any time you discharge an employee based on performance," he continues, "Exhibit A for the employee, once the lawsuit is brought, is performance reviews. If the performance evaluation is different from what the employee has been told orally by the manager, if it's not complete, if it's trying to shade things to protect somebody's feelings—because nobody likes writing nasty things about employees—that will be a powerful tool for the plaintiff's attorney."

Management lawyers thus advise their clients to document employees' shortcomings—a course that isn't without hazards of its own, since an employee who gets a negative review may blame that on some forbidden motive. "Sometimes managers are afraid someone will allege discrimination," says Jonathan Segal, an attorney with the Philadelphia firm Wolf, Block, Schorr & Solis-Cohn, "so they don't give them the feedback they need."

In today's litigious climate, Segal says, "I don't think employers can avoid claims altogether. I think it's a question of managing them, not avoiding them."

When a legal challenge of a review process is involved, Stoner says, fairness and consistency are the key words. "Where organizations get themselves in trouble," he says, "is by making a process



change midstream, applying it to one or two people, and using that as the justification for the decision."

Such problems arise, Challenger suggests, when companies try to make performance reviews serve too many purposes—encouraging a "constructive dialogue," on the one hand, while providing legal protection on the other (and controlling wage costs, too, since a poor performance review can be offered as justification for denying a pay increase).

"The performance review is being asked to shoulder all of those different aims," Challenger says, "and they're contradictory."

Burns agrees: "There's a tension between trying to provide feedback—which everybody agrees is a good idea—and falling into the trap of trying to create a paper trail to justify some potential future decision."

Pfeffer, author of *The Human Equation: Building Profits by Putting People First* (Harvard Business School Press, \$24.95), believes that employers who try to use performance reviews to protect themselves



reliability

enthusiasm

productivity

*Many people think a scheduled employee evaluation is a poor measure and even a legal time bomb. But there are ways to make an appraisal work well.*

unit can be trusted to force out anyone who is not pulling their weight, he says.

Small firms are in a uniquely advantageous position to avoid performance reviews, Pfeffer says, because they offer so many more opportunities for interaction between employees and managers. Constant communication "is much more effective" than formal review systems, he says.

Segal warns, though, that if a company scraps its annual appraisals it must make sure "that the message is not that performance management isn't important" but that "it's so important that we do it continually. Then you have to make sure you're really doing it"—and doing it in a way that makes sense for the company.

Danger arises, he says, when a company doesn't understand itself, as when the people at the top talk about "great teamwork, but in fact it's made up of all these atoms bumping against

one another. If an organization culturally values rugged individualism, and you have every individual doing his or her own thing, a bonus related to group merit is going to fail, because it won't reward the individual in a way he or she wants."

### Mechanics And Context

You can't divorce a review system from the company culture of which it's a part, the experts agree. "If a company is having problems with performance reviews," Morris says, "it's likely having problems with employee relations and manager-subordinate relations in other areas as well." And the annual review, far from being a vehicle to resolve such problems, is instead "another negative that people have to deal with."

In other words, the mechanics of a review system probably matter less than its context. The overall company environment helps determine whether the annual review is a dreaded and meaningless ritual or what Segal calls "a tool to motivate and reward."

For example, at Bethesda, Md.-based

Calvert Group, a 155-employee mutual-fund company that is a subsidiary of Aca-cia Mutual Life Insurance Co., the company culture has a strong open-door element, says Judy Shober, the human-resources director. When it comes to employee performance, she says, that culture ensures that "where there are areas of concern, they're addressed throughout the year on an informal basis."

**H**owever specific review systems are to each company, it's likely that a successful review system will embrace some if not all of these characteristics:

#### A focus on the future.

By concentrating on what employee and supervisor can accomplish together in the months ahead, you can avoid what Morris calls "that whole report-card mentality."

Says Stoner: "Those systems that get the bad rap are the ones where the manager has saved up all the bad news in the gunnysack and dumps it on the table at review time."

The review shouldn't be an occasion for dumping what has been called a "grudge bag" on the employee, Morris says, but an opportunity to look at how well the employee fits in the position, and what the employee can do to develop. "That's different from looking at what you're doing wrong," he says.

#### The avoidance of surprises.

"If your system yields surprises," Stoner says, "something's wrong with it." The annual review, he says, should be "a confirmation of what has already occurred. The best processes reinforce ongoing feedback."

Says Calvert Group's Shober: "People need to know how they're doing." If the annual review of a Calvert employee includes areas marked "needs improvement," she says, "probably 99 percent of the time" the employee already knows that, "because it's been talked about."

If there's ongoing feedback so that there are no surprises in the annual review, why is a review needed at all?

"It creates the opportunity to summarize," Stoner says—to look at the successes and relative failures all together, "to talk about what was accomplished and how it

from their employees often defeat their own purposes.

"Any time you have a relationship of distrust, you're going to have more lawsuits," he says. "Any company that takes advice on how they manage their people from their lawyers, I want you to tell me about them, so I can short the stock."

### Employees' Interdependence

Like other management thinkers, including the late W. Edwards Deming, the father of the quality movement, Pfeffer believes that annual reviews are inherently destructive and inaccurate.

"The more micro you make the measurements," he says, "the more inaccurate the measurements are," because any individual's performance is heavily dependent on other individuals' performance.

"It's very hard to see exactly what each individual is doing," he says, "although it's quite easy to measure much more accurately how a larger unit is doing"—through, for example, surveys of customer satisfaction. The people working in such a



## MANAGING

was accomplished. Organizations get the most out of people when they have employees who not only get results but get results in a way that people are comfortable with. A performance-appraisal process can help move people in that direction."

#### Involvement of the employee in the process.

Get the employee to say what he or she is good at, Morris suggests. "That's very revealing to the manager," he says, "and it puts off more responsibility on the individual, to see if what the people think they're good at is what the manager thinks they're good at. It also allows you to start on a positive note."

(There shouldn't be wide disparity between what the boss and the employee think, he says. If there is, "Where was the boss all year?")

Segal suggests that there are other devices that can elicit more-useful reviews, such as having the employees write their own evaluations in draft, subject to questioning—and revision—by the manager.

#### Separation of performance reviews from pay decisions.

If you talk about salary and performance in the same meeting, Morris says,

the money side will dominate the discussion quickly. "A performance review should not automatically be thought of as a salary review."

Stoner suggests a performance review after the employee's first six months, "solely focused on what the person is doing and what they can do to get even better," followed at yearly intervals by a decision on pay that is disposed of before discussion of "what's coming up" for company and employee. That way, no one sits around wondering what kind of raise they're going to get following their performance review.

There's another hazard in linking raises and performance reviews too tightly. "If you have wages based on performance reviews, and you have a tight lid on raises," Challenger says, "it means your performance reviews can't be very good."

#### Recognition—and control—of the subjective element.

"We like to think that they're completely objective and neutral," Challenger says of

performance reviews, "but that's just not the case. There's a large element of subjectivity built into performance reviews. You've got to get along with your boss.

People who are in conflict with their boss get poor performance reviews," no matter how good their performance might be when measured by seemingly objective criteria.

However "subjective" the conflict might be, "it's still a relevant factor as to how that department operates," Challenger says. "Interpersonal conflict creates a drop in performance for the group as a whole."

Although such subjective factors are a valid consideration in performance reviews, supervisors should train themselves not to downgrade

performance for reasons that really have nothing to do with the work. "You want to make sure you're not punishing somebody just because they're different from the person they work with," Stoner says.

The whole point of performance reviews, after all, should be, as Morris says, to "look at how we can work together better." **NB**

**"A performance review should not automatically be thought of as a salary review."**

—Consultant  
Tom Morris

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MANAGING

# Using Software For Worker Reviews

By George V. Hulme

*Two computer-based programs can help bring consistency and legal peace of mind to the evaluation process.*

**M**uch of what a manager needs to know to conduct employee evaluations is now packaged as computer software.

The two leading programs guide users through the process, provide on-screen tutorials that answer frequently asked questions, and steer managers clear of potential legal problems.

Computer-based programs also add consistency to the review process, establishing clear definitions for terms open to interpretation, such as "adequate" and "excellent."

The advantages of on-screen training and consistency helped persuade Kerry Schulz, vice president of Vidcon Enterprises, Inc., in Battle Ground, Wash., to toss out his old paper evaluation forms and buy PerformanceNow!, a \$119 program from KnowledgePoint in Petaluma, Calif. (1-800-727-1133).

"We had set out to find a tool for our managers that would provide training in this area, and we needed a way to make all of our reviews more consistent," says Schulz, whose firm operates a chain of seven convenience and video stores.

"We took a look at the application and saw a real value over performing the paper-only reviews," says Schulz. "The just-in-time training and topical advice the program makes available justify its use. If one of our managers is doing a review and has a question relating to an appraisal, the on-screen coach will most likely be able to provide an answer."

It is this "train as you go" feature that helps managers feel more confident about the process and the final report. "They actually like to do the reviews now," adds Schulz. "The software gives them a sense of accomplishment. I can see the differ-

ence and how the software has lightened the load on their shoulders when it comes to review time."

PerformanceNow! 3.0 takes reviewers through a logical review process, rating employees on a scale of 1 to 5 for 11 job elements, such as job knowledge, initiative, and oral and written communication. Each element can be weighted according to its

terms-integration company in Bethesda, Md., has seen results similar to those at Vidcon since her firm installed Employee Appraiser 3.0, which retails for \$129 and is available from Austin-Hayne Corp. in San Mateo, Calif. (1-800-809-9920).

"Since we've standardized on the software, there has been much less procrastination from our managers when it comes

to conducting reviews. The program helps with the actual writing of the review and has cut down the time managers take writing the review from a couple of hours to less than one hour," says Augustaitus. "And as a result of the managers being able to conduct better reviews, the employees have noticed a difference. They're getting more-pertinent feedback."

Employee Appraiser lets reviewers choose whether an employee has met, exceeded, or failed to meet performance standards in dozens of categories, including communication, job knowledge, and initiative.

The program also helps reviewers write the evaluation. If the text turned out by the program is more harsh or more flattering than what the reviewer intended, he or she can "tune" the text with keystrokes to

tone down criticism or pump up praise.

Companies that store appraisal forms electronically as word-processing templates will find it easy to convert to Employee Appraiser. The program can easily import existing forms from Microsoft Word, WordPerfect, and other popular word processors, potentially shaving hours off the process of converting the company appraisal system to Employee Appraiser.

## The Legal Imperative

On-screen training and improved efficiency aren't the only reasons these programs make sense. They also can help keep managers out of legal hot water when conducting reviews, says Mavis



PHOTO: MICHAEL McDERMOTT—BLACK STAR

**Software promotes consistency in performance reviews, says Kerry Schulz, left, vice president of a video chain, with employee Pat Shaw and Kevin Schulz, president.**

importance to the employee's job function.

PerformanceNow!'s on-screen commands are easy to use, and all the appraisal functions are in plain view, making it a snap to compare the employee's goals for the period before the review to goals to be achieved before the next review.

## Less Procrastination

Eileen Augustaitus, human-resources manager at Sytel Inc., a computer-sys-

George V. Hulme is a free-lance technology writer in Croydon, Pa.



## MANAGING

Scarcello, vice president of human resources for Community Financial Federal Credit Union in Broomfield, Colo. "We found the help in keeping our reviews consistent and legally sound as a big benefit of using PerformanceNow!" she says.

PerformanceNow! also provides on-screen legal advice. It can spot legally sensitive wording and provide alternatives. Employee Appraiser's language-scan feature locates potentially litigious phrases and words—such as "young" and "old."

To get the most out of the process, Scarcello asks employees to review themselves based on the criteria established in their previous appraisal.

Typically, she says, "the manager's and the employee's interpretation of the employee's performance are very close. The comparison between the manager's appraisal and the employee's self-evaluation helps eliminate surprises in the review and starts the process on common ground, establishing a framework for the manager and employee to set goals for moving forward into the next year."



PHOTO: GARRY STAVEN

**As human-resources vice president at a credit union, Mavis Scarcello welcomes the legal guidance in performance-review software.**

And that is one of the most important rules of performance reviews, says Allen Jaramillo of Jaramillo Associates, a human-resources consultancy in Aurora, Colo. "If there are surprises during the review, such as an employee being shocked that the review is less than favorable, then something is terribly wrong with the

system. There's been a communication breakdown.

"And that is one area software programs can help if managers get in the habit of logging positive and negative performance information and reviewing events [with employees] as they occur. Everyone gets a lot more out of the process."

Both programs encourage such logging and reviewing, which can lead managers to make periodic notes about employee performance and to provide feedback at least quarterly rather than only once a year.

Anything that helps managers regard employee reviews as an ongoing process instead of a one-time annual event is a giant leap forward, says Deb Haggerty, a York, Pa., speaker and consultant on human-resources issues.

"When appraisals are viewed as an ongoing process and done more frequently," Haggerty says, "managers become less intimidated by the process, and they start developing their employees and getting more out of their people—which is why they're managers in the first place." **NB**

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# Business' Stake In Park Plans

By Thomas Love

**C**hanges planned for the National Park System would have a major impact on small businesses near some of the nation's most popular tourist attractions.

The National Park Service is preparing to implement plans to limit the number of tourist cars in two of the nation's most visited parks—Grand Canyon in Arizona and Yosemite in California—and in the smaller Zion in Utah. Services for visitors in some park areas also would be affected.

The traffic-management plan for the Grand Canyon is accompanied by a highly controversial proposal to create a new town within what is now property of the U.S. Agriculture Department's Forest Service.

The changes—envisioned as demonstration projects for the entire National Park System—are designed to eliminate traffic jams, minimize pollution, and enhance the scenic experience in the parks, according to the Park Service, which is part of the Interior Department.

In June, Interior Secretary Bruce Babbitt said: "An increasing number of our national parks are fast becoming as crowded with cars as some of our most congested highways. By working with [the Department of Transportation], we will develop transportation alternatives that preserve the beauty and enjoyment of these treasures for generations to come."

The proposed changes are expected to greatly alter the business dynamics in and around the parks, providing new opportunities for some entrepreneurs and introducing new competition for some existing small firms.

For example, some merchants in Springdale, Utah, at the entrance to Zion National Park, say the Park Service's plan might result in longer stays in town by park visitors. The Park Service would provide shuttle buses—free to park visitors upon payment of the entrance fee—from hotels and campgrounds in Springdale to a visitors' center and, from there, to drop-off points within the park.

"We're very excited about the partnership between the park and the town," says Linda Holder, general manager of the Zion Canyon Cinemax theater in Springdale (population about 350). "We think the transportation plan will have a positive effect. We believe this will entice people to



PHOTOS: T. MICHAEL KEZA

**On board** with the plan for a retail- and transportation-oriented village near Grand Canyon National Park is David Chambers, president of the Grand Canyon Railway, which takes passengers to the canyon's rim from Williams, Ariz., 60 miles away.

stay and play another day and enjoy the area by making moving around within the town very easy."

## The Grand Canyon

Reaction to the Park Service's plans has not been as favorable, however, in communities near the south rim of the Grand Canyon, which has more than 5 million visitors a year. There, the agency proposes to create Canyon Forest Village in the Kaibab National Forest, just outside the park.

The town would, among other things, provide an anchor for a separate transportation center for day visitors, who would leave their cars there and use a light-rail system to reach the park. Inside, they could move about on foot or use a proposed system of alternative-fuel buses.

Those staying overnight at hotels or campgrounds within the park could drive

in as they do now, but the number of hotel rooms in the park would be reduced.

The town would be built on a parcel of Forest Service land that the developers would acquire in exchange for scattered small plots throughout the Kaibab National Forest—plots called in-holdings—that they now control.

Although the new-town proposal has generated controversy—partly because opponents say the developers would acquire land worth far more than the holdings they would surrender—the parties involved, in both the private and the public sectors, agree that some form of land swap appears certain. A decision on which of several land-exchange options will be adopted is expected by the end of the year.

The Park Service also wants the town to



## PUBLIC POLICY



PHOTO: LINDA BUE SCOTT

become the new location for housing for so-called nonessential park employees who now live inside the park.

Tom DePaulo, a private developer who has been working on plans for Canyon Forest Village since 1990, envisions a town with housing heavily subsidized by businesses in the town and with land for community parks, recreation, and a school.

DePaulo says the idea for a land exchange to build a new town originated at the Forest Service in connection with its long-range Kaibab Forest General Plan. One reason for development outside the Grand Canyon park, he says, is to alleviate what he calls the "pretty distressing" living conditions of some park employees, with some families doubled up "in two-bedroom mobile homes built in the '50s."

Another advocate of the Canyon Forest Village concept is David Chambers, president of the Grand Canyon Railway. The railway takes about 130,000 passengers a year from Williams, Ariz., to the rim of the Grand Canyon, about 60 miles away. He says the village "would certainly present dramatic opportunities for small businesses, whether a T-shirt shop, a restaurant, a film shop, or a convenience store."

Plans for the light-rail transportation center outside the park include a 3,000-car parking lot, ticket offices, and retail, food, and beverage services. "We certainly intend to be aggressive in getting to build and operate the light-rail system in addition to what we are doing now," says Chambers.

### Voices Of Dissent

Opposition to the Canyon Forest Village concept is coming from business owners in the area, particularly in Tusayan, the town closest to the south rim of the Grand Canyon. Tusayan is small and surrounded by the Kaibab National Forest.

Chris Thurston, who owns a motel in Tusayan and whose father was one of the town's founders in the 1930s, says there "is tremendous opposition" in the town

*The plan to restrict access by car to California's Yosemite National Park would benefit businesses in gateway communities such as Mariposa, says Jerry Rankin, manager of a Best Western motel there.*

and in Flagstaff and Williams. "There is absolutely no need for the land exchange," he says. "Accommodations for tourists could be handled in Tusayan, Flagstaff, and Williams. Housing for nonessential park employees could be handled through an agreement with the Forest Service to [provide land to] build needed facilities."

Developer DePaulo disagrees. The necessary development cannot take place in Tusayan because of limited land and the attitude of local businesses, he says. "I have a hard time referring to Tusayan as a town. Tusayan is a strip mall," he says. "It is controlled by three families that not only own the land but all the businesses, and [they charge] whatever the market will bear."

Conny Frisch, supervisor of the Kaibab National Forest, says the new town "would introduce competition" in the area. "In the park, prices are controlled by the Park Service and are more comparable to Flagstaff. Outside [in Tusayan and nearby] they're double what they are in Flagstaff," about 80 miles away.

For their part, the local businesses say they must charge high prices because of the high cost of transporting goods to the area, expensive water, and the cost of providing housing for their employees.

### A Question Of Values

Another argument against the proposed town focuses on land values. According to Thurston, the approximately 2,000 acres of isolated in-holdings that Canyon Forest Village promoters want to exchange for the Forest Service's parcel have been appraised for bank loans at about \$1,500 or \$2,000 an acre, while the Forest Service

property—in his view—is currently worth about \$1 million an acre.

If the promoters have \$3 million to \$4 million worth of property, they should get only three or four acres, not 680, Thurston maintains, referring to the projected size of the town under one of the plans. "Then everyone would be playing on a level playing field," he says.

On the contrary, the land values on both sides of the possible exchange appear to be about equal, says Cathie Schmidlin of the Kaibab National Forest public-affairs office. But she adds that the appraisals of the developers' in-holdings would not be released for privacy reasons.

Tom Gillett, Forest Service project manager for the environmental-impact statement prepared for the area, says that the appraisals are being done by a company under contract with the Forest Service and under the direction of Forest Service appraisers.

The appraisers, Gillett says, will tell the government officials making decisions on what to do in the area whether the numbers balance out but will not tell them the specific dollar amounts for the properties until after a land-swap option is chosen. Then, he says, only a summary of the appraisals will be made public.

### Yosemite National Park

While the Grand Canyon plan has stirred a lot of dust in Arizona, there seems to be widespread support in California for a plan to limit cars in Yosemite National Park, which has nearly 4 million visitors a year.

Brian Huse, Pacific region director for the National Parks and Conservation Association, based in Washington, D.C., says the Park Service's Yosemite Valley Implementation Plan calls for wholesale changes in the Yosemite Valley, which, although it makes up only 10 percent of the park, draws more than 90 percent of the visitors. The plan would move some faci-



ties out of the park and limit the number of cars in the park by requiring the use of public transportation.

Some people who live near the park, concerned that their access to the park by car will be restricted, maintain that the Park Service is overreacting to traffic problems that occur only a few days each summer.

### Little Room For Maneuvering

"Yosemite Valley is what everybody thinks about when they think of Yosemite National Park," Huse says. "That's where Yosemite Falls, Half Dome, and El Capitan are located. The valley, carved by glaciers millennia ago, is surrounded by granite monoliths."

"The valley is prone to rock falls and floods, so there is only so much area that is safe to develop. On New Year's 1997, much of the valley was flooded out, and a lot of structures were damaged."

The plan generally calls for relocating into safe areas rather than rebuilding structures. Many of the administrative facilities and housing for employees and their families would be moved outside the park. Lodging and food concessions would be moved out of harm's way, Huse says.

The largest impact on Yosemite probably would come from significant restrictions on

the use of vehicles by day visitors to the valley. Some roads would be removed. Visitors would leave their cars in parking lots and use mass transit—probably buses—from the gateway communities to the park.

"The opportunities for businesses outside the park will be tremendous," Huse says. "Instead of people driving through the communities and maybe grabbing a tank of gas, those gateway communities are going to be capturing all of the business from the day visitation, which is the largest part. The visitors will have to be fed and provided a place to stay, along with other amenities."

He adds, however, that the communities must plan carefully for growth and provide the type of infrastructure that people expect when they visit a national park. To manage growth, the planning staffs of the five counties around Yosemite are working with the park authorities, says Jeff Brown, executive director of the Merced County Association of Governments.

**The plan for Yosemite Valley "will open a whole passel of opportunities for small businesses."**

—Motel Manager  
Jerry Rankin

The plan would be a large plus for area firms, says Jerry Rankin, who manages the Best Western Yosemite Way Station in Mariposa. The facility is one of seven motels there and in Oakhurst and El Portal that are part of the Yosemite Hotels system, the largest provider of lodging along Yosemite's borders.

Says Rankin: "If they abandon the idea of parking in the eastern part of Yosemite Valley, clearly the property and businesses in the gateway communities will become more valuable."

That will open a whole passel of opportunities for small businesses. It would really help our hotels."

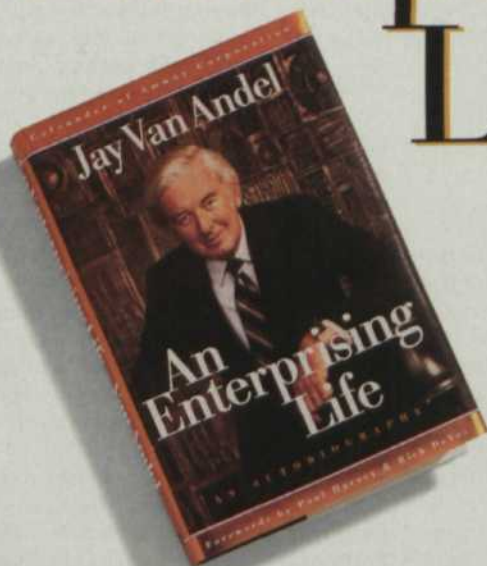
**D**espite the remaining questions surrounding the Park Service's plans for Grand Canyon, Yosemite, and Zion, there is no doubt that coming changes in the national parks will provide new opportunities and challenges for many small businesses. **NB**

# An Enterprising Life

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## FINANCE

# Keeping Money Local With A 504 Loan

By Sharon Nelton

Iowan Jim Dean is the kind of guy who likes to keep money in the communities where he does business. He also likes working with local banks, where he can look at somebody and shake hands instead of talk on the phone with a banker half a continent away.

"It's just the type of people we are," says Dean.

So a special U.S. Small Business Administration (SBA) loan program turned out to be just the ticket when he and seven partners decided they wanted to start an egg-production facility in the northwest Iowa town of Sioux Center, population 5,100.

The problem: The \$2.4 million cost of the initial phase of the project exceeded the lending limits at American State Bank, a small Sioux Center bank. But Calvin D. "Cal" Cleveringa, vice president of the bank, had a solution: Use the SBA's 504 loan program, under which a "certified development company," or CDC, would partner with the bank to finance the start-up.

Siouxland Economic Development Corp. (SEDC), a CDC in Sioux City, worked with the bank and with Dean and his partners to fund Center Fresh Egg Farms. When the deal was closed last October, the partners each had put in \$60,000 to come up with a 20 percent down payment of \$480,000; SEDC had lent \$736,000, or 30 percent; and the bank had lent the remaining \$1.2 million.

The money would be used to finance the purchase of land and equipment as well as the mortgages on two buildings. The bank was so certain that the 504 loan would be approved that it provided interim financing to enable Dean and his partners to start construction in 1996.

"The usage of the 504 program allows us to finance larger projects than we would without the program because the amount borrowed out on the 504 is not included in our lending limit," says Cleveringa. "In agriculture, farms and operations are becoming larger, so it helps us as

*This story is part of a continuing series on ways for small companies to locate the financing they need to run their businesses.*



PHOTO: ©BRANDY HAMPTON—BLACK STAR

Prompted by Sioux Center, Iowa, bank executive Calvin D. "Cal" Cleveringa, left, to use the Small Business Administration's 504 loan program, Jim Dean, center, and partner Bruce Dooyema got start-up financing for their egg-production facility.

a small, country bank to work with some of these growing operations."

## How The System Works

CDCs are private, nonprofit, economic-development corporations certified by the SBA. There are about 290 of them across the country, and they carry out the 504 program by selling debentures, or bonds, to large investors such as pension funds and using the proceeds to make loans. Nationally, about 4,100 such loans totaling \$1.4 billion were approved in 1997, according to the SBA.

"The 504 program is a low-down-payment, lower-interest-rate, long-term loan program for small businesses," says Glenda Castleberry, vice president of SEDC.

*An SBA program helps small businesses work with area banks to obtain funding and keeps dollars circulating through the community.*

The bank's portion of the Center Fresh Egg Farms financing calls for an interest rate of 9 percent over 15 years, but the 504 loan will run for 20 years at an effective rate of 7.3 percent.

Business owners who qualify for the program can make down payments as low as 10 percent. But start-ups such as Center Fresh must put in an additional 5 percent equity. Center Fresh's founders had to put in still another 5 percent because the egg-production facility consisted of special-purpose buildings. Lenders view such facilities as riskier because they are harder to liquidate if the loan goes sour than buildings that can be converted easily to other uses.

According to the National Association of Development Companies in McLean, Va., a business must have a net worth under \$6 million and net profits after taxes under \$2 million to qualify for the program. Financing can be used for purposes such as buying land and buildings, construction, and equipment but not for working capital.

The program requires that one job be created or retained for every \$35,000 of 504 financing or that at least one of seven "public-policy goals"—such as rural development, expansion of exports, minority development, or business-district revitalization—be met through the loan.

In the Center Fresh deal, the company was expected to create five jobs—far below the ratio of one job to \$35,000. But SEDC chose the second option, selecting a public-policy goal of rural development, says Castleberry.

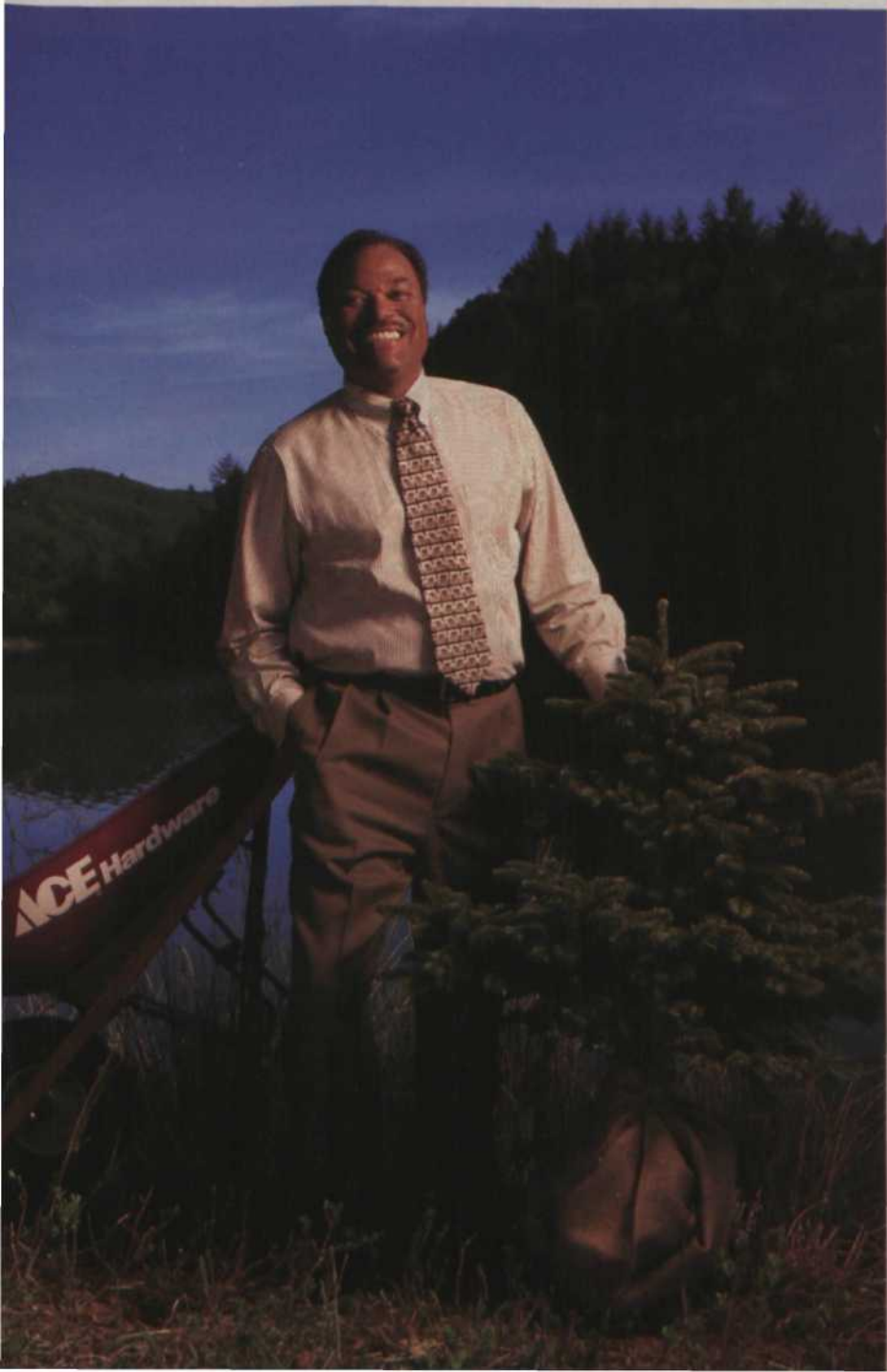
In any case, Center Fresh has received additional funding from American State Bank, which went outside the 504 program and partnered with other banks, says Cleveringa. "We used this SBA 504 package to get started," he says, noting





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that American State has put a total of about \$4 million into Center Fresh.

Center Fresh now has 10 employees. It has 630,000 chickens and eventually will have 1 million laying hens, says Dean. He also owns Oskaloosa Food Products, an Oskaloosa, Iowa, egg-processing plant that supplies frozen and dried eggs to bakeries, ice cream companies, and other manufacturers.

## The Pluses And Minuses

A 504 loan's advantages to a community go far beyond the jobs created, say all involved in the Center Fresh financing. Dean points out that a chicken consumes a bushel of corn per year; Center Fresh purchases more than 600,000 bushels of corn annually, supporting local corn producers.

While the feed usage has been the biggest boon to the local economy, Cleveringa says that the creation of the facility brought business for cement contractors and trucking companies and that the production of manure at Center Fresh "cuts down on the cost [of manure] for area farmers."

The creation of jobs also gives the bank further opportunities for lending to workers who might want home mortgages or vehicle loans.

The chief advantages for a 504 borrower are a low down payment, low interest rate, and long payback period. However, Dean says he and his partners initially expected to have to put down only 10 percent. But the SBA changed its requirements in midstream, resulting in the 20 percent down payment. Still, Dean says, that's better than the 30 to 35 percent typically required for commercial loans.

Dean cites two disadvantages of the 504 loan: high fees and burdensome paperwork. Fees run about 3 percent of a loan—about \$21,000 in Dean's case. They cover items such as the bond underwriter, loan-origination fees, and closing costs, says Castleberry of SEDC, which makes about a dozen 504 loans each year. She points out that the 504 program "has worked very hard to pay for itself" and that the fees help it do so.

Castleberry agrees that the paperwork is burdensome but says that anything involving the sale of bonds requires a lot of paperwork. So does anything involving the federal government, which wants to be sure of compliance with rules on the environment, discrimination, and the like.

"The CDC's job is to try to make [the pa-

**Before you start the process of obtaining a 504 loan, find out what's expected of you, what documents you'll need.**

—Egg-Plant Owner  
Jim Dean

perwork] as painless as possible," says Castleberry.

## Steps In The Process

To apply for a 504 loan package, you can go to your bank or to your nearest CDC. (See "For More Information," below.) Usually, however, business owners start with their bank.

Typically, it takes about two months to complete a deal, according to Cleveringa. But the Center Fresh transaction took much longer—about 18 months—in part because

after the partners made initial contact with Cleveringa, they took their time deciding if they wanted to go the 504 route. The fact that there were eight partners also complicated the process; each had to provide a résumé, for example.

Each 504 loan package requires three approvals: one from the bank, one from the CDC, and one from the regional SBA office.

"Good business planning is always the key, no matter what program you're applying for," says Castleberry. "If you've done your cash-flow projections and they seem reasonable, any bank and any program is going to fund you."

Dean adds: "Make sure that you do understand what is expected of you when you start on the path to acquire one of these loans." You need to know what documentation you'll have to provide and when it's required, he says.

Despite the paperwork and high fees, the 504 loan financed the first phase of Center Fresh. The first phase, in turn, generated the cash flow and profits that helped the young company to expand.

What's more, Dean says, the 504 program has "allowed us to keep all of the dollars that are generated on that farm dealing in and through the local economy." ■

## For More Information

You can learn more about the 504 lending program and certified development companies from the following sources. Both provide names and addresses of CDCs across the country on their World Wide Web sites:

■ The U.S. Small Business Administration, [www.sba.gov](http://www.sba.gov). For more information, you can contact your nearest SBA office. Check the blue pages of your telephone book.

■ The National Association of Development Companies, [www.nadco.org](http://www.nadco.org). NADCO, the trade association for CDCs, can be contacted at 6764 Old McLean Village Drive, McLean, Va. 22101; (703) 748-2575.



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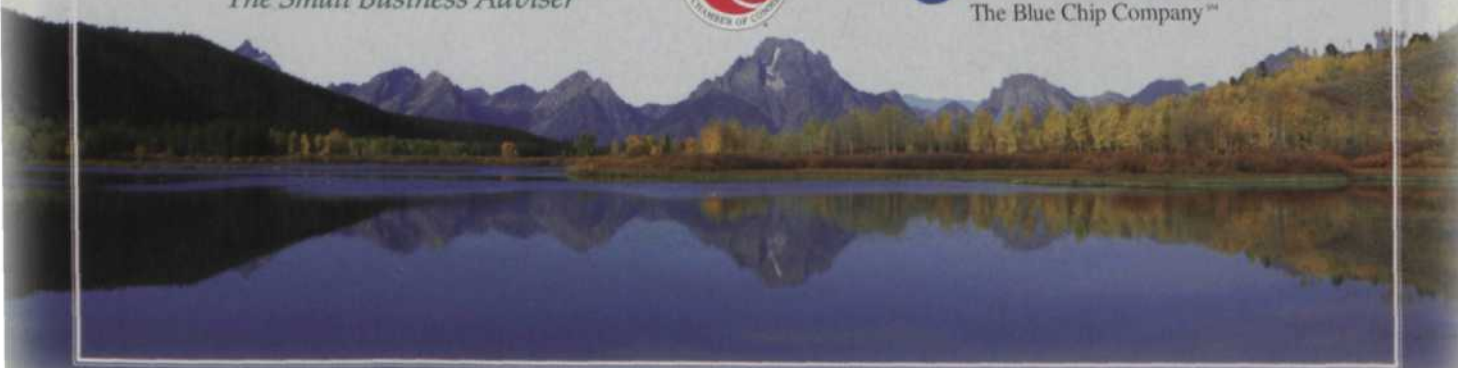
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# Postal Service Not Backing Down

*The new postmaster general says that, despite protests, small businesses can expect "pack-and-send" competition to resume.*

By Steve Bates

**S**mall businesses that pack and ship parcels can expect continued competition from the U.S. Postal Service, says new Postmaster General William J. Henderson.

Henderson, 51, who assumed his position in May after the departure of the colorful Marvin Runyon, says the "pack-and-send" service that the Postal Service tested in fewer than 300 postal branches early last year will likely return in some form.

The service was vehemently opposed by franchise businesses such as Mail Boxes Etc. and Parcel Plus, which said that the government-sponsored Postal Service was competing unfairly with the private sector.

"We have not reinstituted pack-and-send yet," said Henderson in an interview with *Nation's Business*. "But there is a strong likelihood we will. ... It's something our customers are screaming at us to do."

Henderson, a 26-year veteran of the Postal Service, is credited for substantially improving first-class letter delivery in major metropolitan areas in recent years. He is only the fifth career employee of the agency to head it; there have been 70 postmasters general before him.

Henderson's selection was hailed by many business groups because of his extensive knowledge of the agency and his efforts to improve its efficiency.

## Rates And Services

Henderson says he hopes to avoid another round of across-the-board rate increases until 2001—a year later than some postal officials have said is likely. He says low postage rates are crucial if the agency is to avoid huge future losses of first-class mail to electronic-communications media.

Like Runyon, Henderson wants the Postal Service to provide some services that some business people maintain are more appropriately provided by the private sector—such as boxing parcels before shipping them. "Pack-and-send is a very close postal product," he says. "I mean it's obvious. If you take packages, you ought to provide customers with [packing services]."

But Henderson says he will try to keep the Postal Service from straying too far afield from traditional postal products and services in retail sales. The agency shouldn't sell coffee mugs simply because the Postal Service needs a steady source of rev-



PHOTO: C. TERRY ASHE

Postmaster General William J. Henderson hopes to avoid broad rate increases before 2001.

enue, he suggests. "You have got to define the role before you can define revenue."

## Corporate Complaints

It's not just small businesses that are complaining about the Postal Service's competition with the private sector. Federal Express Corp. and United Parcel Service also have butted heads with the Postal Service in recent months. They claim that the Postal Service has run misleading television and print ads for its highly profitable Priority Mail service, which does not guarantee a delivery date.

Also, FedEx and UPS say the Postal Service has economic advantages over private firms delivering parcels overseas because of its government backing. FedEx and UPS have lobbied heavily on Capitol Hill to try to rein in the Postal Service.

Henderson says he welcomes the battle with the big shippers. "If [our] product wasn't good, they wouldn't be lobbying to get us out of the marketplace."

He says the Postal Service will continue to explore ways to give bulk mailers discounts if they can share in the work of getting mail to its destinations. A program under which companies consolidate and deliver mail to a postal facility near the mail's final destination—called the drop-

ship program—is one such initiative that benefits all parties, he says.

"We have companies that a few years ago didn't exist [but] are \$100 million package consolidators today," says Henderson. "We've incentivized a lot of this growth. It's not like we fell off the back of a pickup truck. We've really tried to figure out some of this stuff, and we've done a pretty good job at it."

## Labor And Congress

Henderson is already facing tough negotiations with labor unions, but he hopes to reduce the acrimony between labor and management. One way to do so, he says, would be to try "a more self-managed delivery system where carriers ... have a pre-understanding of how much time it's going to take" to deliver their mail and "have some options on what kind of routes they want."

Henderson said he supports efforts in Congress to give the Postal Service more flexibility to set rates for products and services that also are offered by the private sector. "I think that reform is inevitable," says Henderson. "We either can get it by working with Congress and working something out or we're going to get it by our competitors lobbying Congress to take some advantages away from us."



## SMALL BUSINESS TECHNOLOGY

# Personal Computers: Buy New Or Modify?

By Tim McCollum

**T**he way Bob Wilson sees it, a good personal computer is one that won't become obsolete every time his company buys new software.

So last year, when it became necessary for Wilson to upgrade to the Windows 95 operating system and compatible productivity software, he decided to give a power boost to the PCs at his company, Works Performance Products Inc. in Canoga Park, Calif., which makes shock absorbers.

Rather than buy new PCs, Wilson, the firm's production and operations manager, chose to upgrade the company's 12 computers with new processors.

Working with computer reseller Demand Systems in Camarillo, Calif., Wilson replaced the 486-model processors in the company's PCs and two computer-network servers with K6 processors from Advanced Micro Devices Inc. in Sunnyvale, Calif., and Pentium processors from Santa Clara, Calif.-based Intel Corp. Although the Pentium and Pentium-class K6 processors aren't state-of-the-art, they are considerably faster than the old Intel-manufactured 486 processors.

With computers powered by the new processors, Works Performance's 30 employees are able to run current-generation software without bringing their PCs to a crawl.

"The new processors have made a significant difference in the speed of the computers," says Wilson. "I was able to improve the efficiency of users by 15 to 20 percent."

## Renewing Rather Than Replacing

Wilson is one of many small-business people who are resisting the computer industry's frantic race to produce and sell faster and more-powerful PCs.

Increasingly, companies of all sizes are choosing to get more life out of the PCs they have rather than constantly buy new ones.

"People are going crazy trying to keep up," says Scott Mueller, president of Mueller Technical Research in Barrington, Ill., and author of *Upgrading and Repairing PCs* (Que Books, \$49.99). "They're starting to reject the idea that they need the state of the art. Spending a few hundred dollars on an older system looks more attractive."

Jon Oltsik, an analyst with Forrester Research, a technology-research firm in Cambridge, Mass., agrees that companies of all sizes are looking to extend the life of the PCs they own. He says the trend has computer and chip manufacturers scrambling to entice companies to trade up to newer technology.

Citing unexpectedly low demand for systems with new Pentium II processors, leading chip manufacturer Intel announced in April that its earnings had declined for the first quarter of 1998 compared with the same period a year earlier.

Sales and profits have been down at sev-

*Many small-business people are opting to upgrade their existing machines, but that path isn't for everyone.*

eral PC manufacturers as well, leading them to cut prices to unload consumer and business PCs.

## In Pursuit Of Power

For at least a decade, computer manufacturers have relied on demand for greater processing power to drive sales of new PCs. As a result, new PC models are usually on the market for less than a year before more-powerful systems come along.

This has led many PC buyers to conclude that their PCs will quickly become obsolete. But will they?

Wilson doesn't think so. Upgrading his

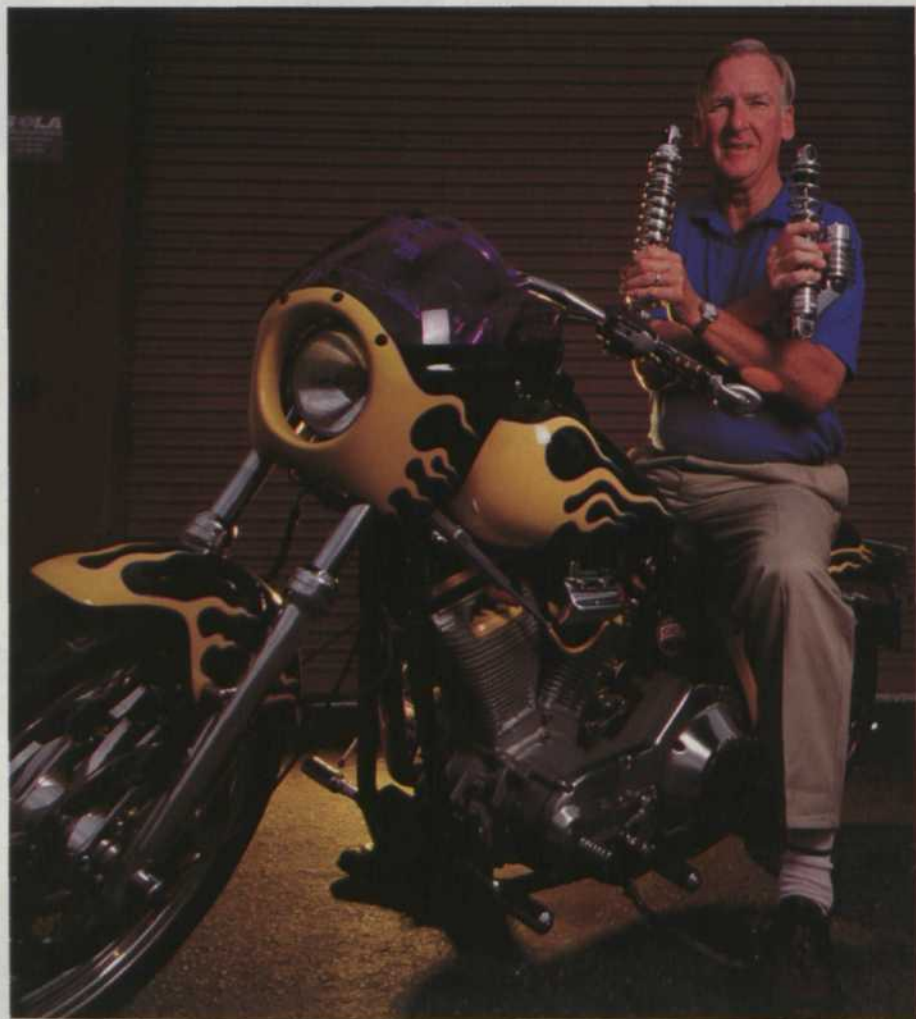


PHOTO: PATRICIA LANZA

Resisting the computer industry's push to sell the latest PCs, Bob Wilson chose to upgrade the processors in the computers at his shock-absorber firm rather than buy new machines.



# "A Sound Strategy."

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## SMALL BUSINESS TECHNOLOGY

company's four-year-old PCs enabled him to extend the machines' life at a cost 30 percent below what he would have paid for new PCs, he says.

### Candidates For Upgrading

The most common components that can be upgraded are processors, memory, and hard disks, notes author Mueller. The processor is a PC's brain, the part that performs the actual computing. Memory affects the number and size of files and applications that a PC can work on at one time. The hard disk provides storage for files and programs.

Mueller says a faster processor and greater memory and hard-disk space can have the most impact on performance.

Most computer stores, resellers, and computer consultants can upgrade computer parts. But if you're relatively adept with machines, you should be able to replace the parts yourself. Books on how to do it are available at many bookstores and computer retailers.

Mueller says upgrading a 486 processor to a Pentium, or a standard Pentium chip to one with MMX (multimedia extension) technology, can increase a computer's performance significantly—especially its ability to handle graphics chores.

The easiest way to upgrade the processor is simply to replace the main board inside the PC, called the motherboard, with one that has a faster processor already installed. (The motherboard houses the processor and memory and contains several slots where other system boards, such as a modem or a video card, are connected.)

Mueller says most Intel-compatible PCs purchased since 1994 can be upgraded to any later-generation Intel-compatible processor on the market. The latest is the Pentium II.

A motherboard can be upgraded for as little as \$200, Mueller says. But he adds that it isn't worthwhile to upgrade computers with older 286 or 386 chips. Many older PC motherboards can't be upgraded at all, although they frequently can accommodate somewhat faster processors.

Adding memory to a computer makes it easier to run graphics-intensive applications and speeds up the display of files downloaded from the Internet.

Memory is also inexpensive and relatively easy to add. Prices have dropped sharply in recent years; about \$40 will buy 16 megabytes of memory, which will allow for a meaningful increase in computing capability.

Hard drives are somewhat more complicated to install, but they are relatively inexpensive and give computers more room to store files and programs. An 8-gigabyte hard drive currently costs about \$300.



PHOTO: STODD BUCHANAN

**Because employees** at hardware and software maker Arial Systems need fast, powerful PCs, Uriel Santiago, the company's chief technology officer, decided to replace old computers with state-of-the-art models.

### Deciding Whether To Buy New

Upgrading isn't for everyone, however. Falling PC prices and the emergence of more-advanced computing technologies have led many companies to conclude that it's better to buy new, even if that means buying computers fairly often.

"It's easy to get overambitious with upgrades," Mueller says. "Sometimes it's more advantageous to change the whole system" rather than overhaul a PC to state-of-the-art specifications.

For Uriel Santiago, chief technology officer at Arial Systems Corp. in Vernon Hills, Ill., replacing PCs with newer, more-powerful models is necessary to give the firm's 20 employees the best technology available. The two-year-old Arial Systems makes asset-tracking hardware and software.

To create these systems, the firm's engineers use computer-aided design and database software programs that place a heavy demand on their PCs. Meanwhile, Arial's salespeople need lots of computer power on their notebook PCs to run demonstrations of their products for prospects.

This year, Santiago replaced Arial's 133-megahertz Pentium PCs with much-faster 333MHz and 400MHz Pentium II systems from Dell Computer Corp. in Round Rock, Texas. Santiago says the new PCs give users the power they need and are less expensive than what it would cost to upgrade individual components.

Another advantage of buying new machines is that they come with a manufac-

turer's warranty, Santiago says. He envisions replacing some of his oldest computers every year or two rather than retiring all the computers at once.

Santiago's view is the one being advanced by Intel and leading computer manufacturers. Nonetheless, computer makers are growing sensitive to concerns about the short life span of their technology.

Manufacturers are trying to entice companies to opt for new PCs by offering leasing and technology "refresh" arrangements—which let customers trade up to new systems after a year or two—and by selling PCs with less powerful processors for under \$1,000.

**F**or small companies, the decision on whether to buy new or to upgrade will depend on their computing needs and their bottom line. Companies needing to perform basic office tasks such as word processing, spreadsheets, electronic mail, and accounting can do very well by upgrading an older PC to a basic Pentium-class processor.

Buying new is a better choice for companies that use higher-level applications such as engineering, desktop-publishing, and graphics programs or for businesses whose employees frequently use the World Wide Web. For these firms, it probably is best to buy the most powerful computer they can afford—with the hope that the technology will have a long and productive life.





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# A Look At The Components

An array of options is available for companies that choose to upgrade their PCs rather than replace them with new models.

The components most commonly upgraded are processors, memory, and hard drives.

Other items often upgraded are graphics accelerators, data-backup devices, and CD-ROMs.

Information about PC components can be found in many computer magazines and mail-order catalogs and on the Internet. Following are a few companies that manufacture computer components for upgrades.

### Processors

**Advanced Micro Devices Inc. (1-800-538-8450, [www.amd.com](http://www.amd.com)).** AMD's Pentium-class K6 processor features the same multimedia extension technology as Intel's Pentium processors for fast graphics handling. It is available at speeds up to 300 megahertz (MHz).

**Cyrix Corp. (1-800-462-9749, [www.cyrix.com](http://www.cyrix.com)).** Cyrix has come out with a competitor to the Pentium II, which it calls M II, available at speeds up to 300MHz.

**Intel Corp. (1-800-628-8686, [www.intel.com](http://www.intel.com)).** Pentium II is Intel's most advanced processor, with speeds up to 400MHz.

### Memory

**Kingston Technology Co. (1-800-337-8410, [www.kingston.com](http://www.kingston.com)).** Kingston makes memory for most major brands and configurations of PCs. Memory is available in increments of up to 64 megabytes.

**Simple Technology Inc. (1-800-474-6753, [www.simpletech.com](http://www.simpletech.com)).** Simple is another longtime maker of reliable memory of all types and sizes for mainstream PCs.

### Hard Drives

**Maxtor Corp. (1-800-262-9867, [www.maxtor.com](http://www.maxtor.com)).** Maxtor's Diamond-Max hard drives have capacities of up to 11.5 gigabytes (GB).

**Seagate Technology Inc. (405-936-1210, [www.seagate.com](http://www.seagate.com)).** Seagate sells its Medalist, Cheetah, and Barracuda hard drives with capacities of up to 18GB.

**PowerQuest Corp. (1-800-379-2566, [www.powerquest.com](http://www.powerquest.com)).** Replacing a hard drive is much easier using PowerQuest's DriveCopy and Drive Image software. DriveCopy (\$29.95) copies the contents of one hard drive to another. Drive Image (\$69.95) allows companies to copy the configuration and contents of one hard drive to multiple drives.

### Graphics Accelerators

**ATI Technologies Inc. (905-882-2600, [www.atitech.com](http://www.atitech.com)).** The All-in-Wonder Pro graphics card offers several graphics features, including 3-D and 2-D graphics and video, a stereo television tuner, and video-capture capabilities. Retail price: \$279.

**Number Nine Visual Technology (1-800-438-6463, [www.nine.com](http://www.nine.com)).** Number Nine's Revolution 3D graphics card greatly increases the processing speed and clarity of computer graphics and video. It handles 3-D and 2-D graphics and video. Retail prices start at \$129, depending on the amount of memory.

### Backup Devices

**Iomega Corp. (1-800-697-8833, [www.iomega.com](http://www.iomega.com)).** Iomega offers a number of solutions for backing up data, including the internal Zip drive (\$99)—which uses small cassettes that each can store up to 100MB of data—and the internal Jaz tape drive (\$279.95), which has up to 2GB of capacity.

**SyQuest Technology Inc. (1-800-245-7334, [www.syquest.com](http://www.syquest.com)).** SyQuest's fast SparQ internal drive (\$199) for PCs stores 1GB of data. The SyJet tape drive (\$249) for PCs and Macs provides fast data storage of 1.5GB of data.

### CD-ROM/DVD

**Panasonic Computer Peripheral Co. ([www.panasonic.com/alive](http://www.panasonic.com/alive), 1-800-742-8086).** CD-ROM drives have become indispensable for loading software and using multimedia and reference materials stored on CD-ROMs. Panasonic's LK-MC682BP internal 32-speed CD-ROM provides blazing playback and fast response times. Retail price is \$99.

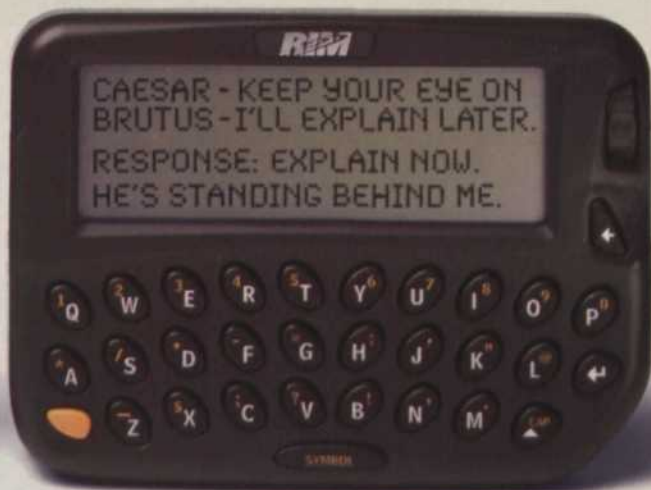
**Sony Electronics Inc. (1-800-352-7669, [www.sony.com](http://www.sony.com)).** Digital videodisc players allow users to play back full-motion video off high-capacity discs as well as conventional audio CDs and CD-ROMs. Sony's DDU220E/H DVD drive comes bundled with an MPEG decoder card that takes much of the burden of playing video off the PC's processor, allowing users to play videos while working on other tasks. Retail price is \$349.

**Creative Labs Inc. (1-800-998-1000, [www.creativelabs.com](http://www.creativelabs.com)).** One type of DVD drive, known as DVD-RAM, enables users to record a whopping 5.2GB of data per double-sided disk. Like other varieties of DVD drives, Creative Labs' DVD-ROM drives also enable playback of audio CDs, CD-ROMs, and pre-recorded DVD videos. Price direct from Creative Labs: \$499.99.





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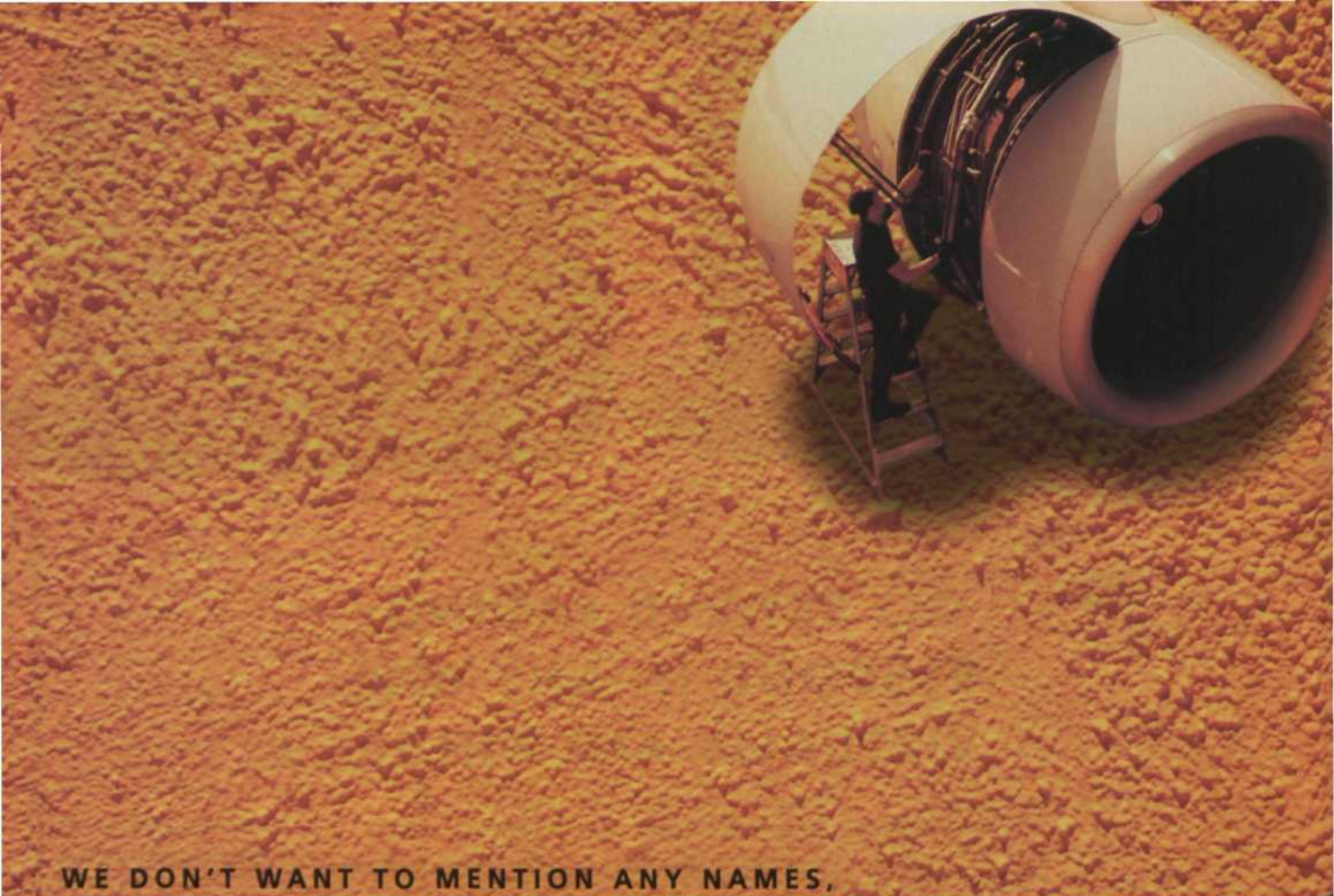
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## SPECIAL REPORT ON TECHNOLOGY

# Doing The Job On The Go

By Tim McCollum and Albert G. Holzinger

**D**ecision-making authority is both the blessing and the curse of entrepreneurship.

Fast-acting small-business owners, by reserving to themselves the authority to make key business decisions, often succeed where larger, more bureaucratic firms fail. Sometimes, however, important decisions have to be made at inopportune times—at night and on weekends, between weekday client visits, or during out-of-town business trips, for example. Hence,

paggers, mobile phones, and portable computers and organizing devices have become small-business necessities.

This special report describes new mobile tools engineered to meet the needs of entrepreneurs.

From highly capable notebook PCs to convenient business-information organizers to wireless phones with paging and electronic-mail capabilities, these technologies help small-business people get the job done while they're on the go.



## Computing

*No matter what your computing needs are while you're away from the office, there's a notebook computer that can meet them effectively.*

Nowhere is computer-industry innovation more apparent than in the notebook category of PCs. The power and features of notebook computers now rival those of desktop PCs. Even more amazing, notebooks are generally becoming smaller and lighter while still adding functionality.

Notebooks gained a turbocharge this spring when Intel Corp. of Santa Clara, Calif., began producing versions of its Pentium II processors optimized for portable computers. Now, these Pentium II processors are standard in most high-end notebooks as well as in some value models.

A notebook featuring Intel's somewhat-less-powerful yet highly capable Pentium MMX processor can be purchased for less than \$2,000.

For those who are constantly on the move, there is a wave of thin notebooks that weigh as little as 3 pounds and cost between \$2,500 and \$5,000. Instead of having extra features built in, lightweight notebooks usually come with a wafer-thin component called a slice; it connects to the bottom of the computer and houses a CD-ROM drive, speakers, a bay for an additional hard drive or battery, and PC-card slots for a modem or network-connection device.

Most current high-end models—often referred to as “desktop replacements”—are packed with features such as 32 megabytes (MB) or more of memory for fast, simultaneous operation of programs; a floppy-disk drive; a fast CD-ROM drive;

a capacious hard drive for storing large amounts of data; stereo sound; and at least a 12.1-inch dual-scan or, even better, TFT (thin film transistor) display.

Moreover, almost all of these notebooks come with modular bays that allow users to add a second battery or hard drive or optional components such as a DVD (digital versatile disk) drive. DVD drives can play conventional audio CDs, CD-ROMs, and special new disks that can hold up to 17 gigabytes (GB) of video, audio, or other data—enough for a 133-minute movie.

Many new notebooks also come with built-in or plug-in PC-card modems for data communications.

Following is a selection of notebook computers in the value, lightweight, and high-performance categories. With the exception of the PowerBook from Apple Computer Inc., which runs the Mac OS, these notebooks run Microsoft Corp.'s Windows 95, Windows 98, or Windows NT operating system. Also featured in this section are a few of the countless accessories that can prove useful to business travelers.



## SPECIAL REPORT ON TECHNOLOGY

## Value

## Compaq Armada 1700

Compaq's Armada 1700 is a powerful system for users who need a high level of functionality at an affordable price. This system features a 233-megahertz (MHz) or 266MHz Pentium II processor; 32MB of memory; a 4GB hard drive; floppy-disk and 24-speed CD-ROM drives; a 56-kilobytes-per-second (Kbps) modem; and stereo sound.

An internal bay can accommodate a second hard drive or battery. An optional DVD drive can be substituted for the standard CD-ROM.

The Armada 1700 comes with either a 12.1-inch or 13.3-inch TFT display. The lithium-ion battery provides up to 2.5 hours of use between charges, and an AC power supply is built in to the system so there is no need for an external battery charger. Price: \$2,869 and up at retailers or direct from Compaq.

## Dell Inspiron 3200

Inspiron is Dell Computer's line of notebooks engineered for home and small-business users. The Inspiron 3200 models sport 233MHz and 266MHz Pentium II chips.

They contain a wealth of features, including 64MB of memory, a 3.2GB or 4GB hard drive, and a 12.1-inch or 13.3-inch TFT display. The floppy-disk and 24-speed CD-ROM drives can be removed to accommodate a second battery or hard drive.

The Inspirons have tremendous multimedia capabilities, including lightning-fast 128-bit graphics accelerators and stereo speakers. Some models include a 56-Kbps modem, and a combination modem/network-connection device is available as an option. Price: \$1,999 and up direct from Dell.

## IBM ThinkPad 380

IBM's venerable ThinkPad line includes a new value-class notebook packed with computing features. ThinkPad 380s are available with a 233MHz or 266MHz Pentium II or a 166MHz, 233MHz, or 266MHz Pentium MMX processor.

Standard configurations feature 16MB or 32MB of memory; a 3.2GB, 4GB, or 5.1GB hard drive; a floppy-disk drive; and a 10- or 24-speed CD-ROM drive. A 12.1-inch TFT display is standard on all but the entry-level system, which includes



IBM ThinkPad 380

a 12.1-inch dual-scan screen. Retail price: \$1,539 and up.

## Lightweight

## Micron GoBook

Micron's GoBook is as useful as it is lightweight. Weighing in at a mere 4.4 pounds and measuring just 1.3 inches thick, the GoBook comes with a choice of a 233MHz or 266MHz Pentium II or Pentium MMX processor; 32MB of memory; a 2.1GB hard drive; and a 12.1-inch TFT display.

In addition, the GoBook's media features are built in to the main system, including a 24-speed CD-ROM drive, stereo speakers, PC-card slots, and numerous ports for connecting devices such as a television or a stereo system. A 2.3-pound base that fits underneath the GoBook houses an additional lithium-ion battery that allows users to work up to 11 hours between battery charges. Price: \$2,599 and up direct from Micron.



NEC Versa SX

## NEC Versa SX

The 4.8-pound Versa SX is available with a 233MHz Pentium MMX or a 233MHz or 266MHz Pentium II processor; 32MB or more of memory; a 2.1GB hard drive; and a 13.3-inch or 14.1-inch TFT display.

Unlike many lightweight models, the Versa SX includes a bay that enables

users to interchange a floppy-disk drive, an additional battery or hard drive, and a 24-speed CD-ROM drive. All of this is packed into a frame that's just 1.3 inches thick. Retail price: \$3,199 and up.

## Sony Vaio 505GX SuperSlim

There's light, and then there's Sony's very light Vaio 505GX SuperSlim, weighing just 3 pounds. The SuperSlim is just 1 inch thick, yet it includes a 266MHz Pentium MMX processor, 32MB of memory, a 2.1GB hard drive, and a 56-Kbps modem.

It also includes a port that lets users connect a digital video recorder or other multimedia device.

The SuperSlim does make some trade-offs to achieve its small size and weight. For example, its 10.4-inch TFT display and "nearly" full-sized keyboard are smaller than those found on most notebooks, and there is no built-in floppy drive, so users must connect an external drive when they need to use a diskette.

Retail price: \$2,699 and up.

## High Performance

## Apple PowerBook G3

Apple loyalists have reason to cheer with the PowerBook G3. It's built for speed with 233MHz, 250MHz, or 292MHz PowerPC processors, all rated faster than comparable Intel processors in industry tests.

The PowerBook G3 includes 16MB to 64MB of memory; a 2GB or 4GB hard drive; and a 12.1-inch dual-scan or 13.3-inch or 14.1-inch TFT display. Also included are an array of multimedia tools such as speakers and either a 20-speed CD-ROM or a DVD drive.

## For More Information

Additional details about the computing products described in this report can be obtained by calling the phone numbers or visiting the World Wide Web sites listed below:

Apple Computer Inc., 1-800-538-9696, [www.apple.com](http://www.apple.com)

CNF Inc., 1-800-826-3462, [www.cnfinc.com](http://www.cnfinc.com)

Compaq Computer Corp., 1-800-345-1518, [www.compaq.com/products/portables](http://www.compaq.com/products/portables)

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## SPECIAL REPORT ON TECHNOLOGY

The PowerBook G3 also comes with a 56-Kbps modem and an Ethernet card for connecting to a computer network. Retail price: \$2,299 and up.

### Gateway Solo 9100 LS/DVD

When equipped with Gateway's unique combination floppy-disk/DVD drive, the 9100 LS is an excellent though somewhat heavy notebook for those with high-end multimedia needs.

Powered by a 266MHz Pentium II processor, this configuration also features 64MB of memory, a 6.4GB hard drive, a fast graphics accelerator, a 56-Kbps modem, stereo sound, and a 14.1-inch TFT display.

To simplify the process of attaching the 8.6-pound notebook to multimedia and other peripherals, the Solo 9100 includes an uncommonly wide variety of ports. Price: \$3,599 direct from Gateway 2000.



Apple PowerBook G3

such as a full-size monitor, a standard keyboard, a mouse, a printer, and even a scanner. But they're not cheap, and if users change notebook brands or sometimes even models from the same manufacturer, they have to change docking stations as well.

Enter theBus, a docking station that connects to virtually any current-generation notebook via the computer's industry-standard PC-card slot. Retail price: \$199.

### Port Leather Carrying Case

Sure, you can carry your notebook in the no-frills case provided by the manufacturer, but if you want to maintain a more upscale executive image, you might want to switch to a leather portfolio.

One such case, from Port, is an elegant, black-leather model with two front buckles secured by magnetic closures. It measures 16.5 by 12.5 by 8 inches and fea-

tures internal suspension to help prevent computer damage. Price: \$225 from retailers or direct from Port.

### TeleAdapt TeleSwitch Plus

Modems are analog devices; most hotel and office phone systems are digital. You can negate the difference with the TeleSwitch Plus.

Also included with the TeleSwitch, by TeleAdapt Inc., is a device known as a modem saver, by IBM Corp. Plug it in to the wall jack in your



TeleAdapt TeleSwitch Plus

hotel room before hooking up your modem to learn whether the line contains "noise" that could damage your modem. Price: \$170 from retailers or direct from TeleAdapt.

### Hewlett-Packard OmniBook 4100

HP's OmniBook 4100 combines slim size and premium computing power. It's powered by a 233MHz or 266MHz Pentium II processor and features 32MB of memory, a 4GB or 6.4GB hard drive, a floppy-disk drive, a 128-bit graphics accelerator, and a 13.3-inch or 14.1-inch TFT display.

The notebook's front-loading bay can house a 24-speed CD-ROM drive, a second hard disk or lithium-ion battery, or an optional LS-120 SuperDisk drive, which can read and write to either standard 1.44MB or high-capacity 120MB diskettes.

The OmniBook 4100 is only 1.4 inches thick and weighs only 5.8 pounds with the bay empty. Retail price: \$3,499 and up.

### Toshiba Tecra 8000

Built-to-order PCs are common among desktop manufacturers. Now, Toshiba has introduced a line of custom-made business notebooks, called Tecra 8000.

Each Tecra 8000 comes with a 233MHz or 266MHz Pentium II processor. From there, users can order 32MB or 64MB of memory, a 4GB or 6.4GB hard drive, and a 12.1-inch or 13.3-inch TFT display. The system's bay can house an optional 24-speed CD-ROM or a DVD drive or an additional hard disk or battery. Retail price: \$2,799 and up.

## Accessories

### CNF theBus Docking Station

Most manufacturers sell devices known as docking stations for conveniently attaching their notebooks to office peripherals



## Organizing

*Hand-held computers and personal organizers are gaining in popularity as a result of their convenience, increased power, and enhanced features.*

Sales of hand-held computers and personal organizers are increasing. Why? Business users are realizing the value and convenience of maintaining business information and communication capabilities in a small, lightweight device.

Such devices come in various shapes, sizes, and technical configurations, ranging from small computers that resemble miniature notebook PCs to organizers called palm computers that allow users to enter information with a pen-like stylus. The devices usually are priced at less than \$1,000; some are priced below \$400.

Over the past year there have been innovations in this category of products. Last fall, Microsoft introduced the second version of its Windows CE operating system for portable computers. Windows CE 2.0, which looks and functions a lot like Windows 95, supports color displays, has improved communications capabilities, and runs software better than its predecessor does.

Also, Windows CE supports Microsoft's PalmPC architecture, upon which many of the new hand-held devices are based. With their small rectangular displays and touch-screen interfaces, PalmPCs look

much like the extremely popular Palm Pilot from 3Com Corp., which uses its own operating system.

Other vendors have taken a different tack in addressing the hand-held market. Mitsubishi Electronics America Inc. and Toshiba America Information Systems Inc. have introduced PCs that are larger than hand-helds and smaller than notebook PCs. The advantage of these devices is that they are more like standard PCs, with Pentium processors, the Windows 95 operating system, and the ability to run standard PC software.

This section looks at hand-held PCs, including palm computers and keyboard-entry devices, and full-strength mini-notebook PCs. In addition, it includes a clever hand-held device for users who are computer-challenged.

## Palm PCs

### 3Com Palm III

The original Palm Pilot jump-started the personal-organizer product category three years ago. Now, the third version of the category-leading device is ready to accept





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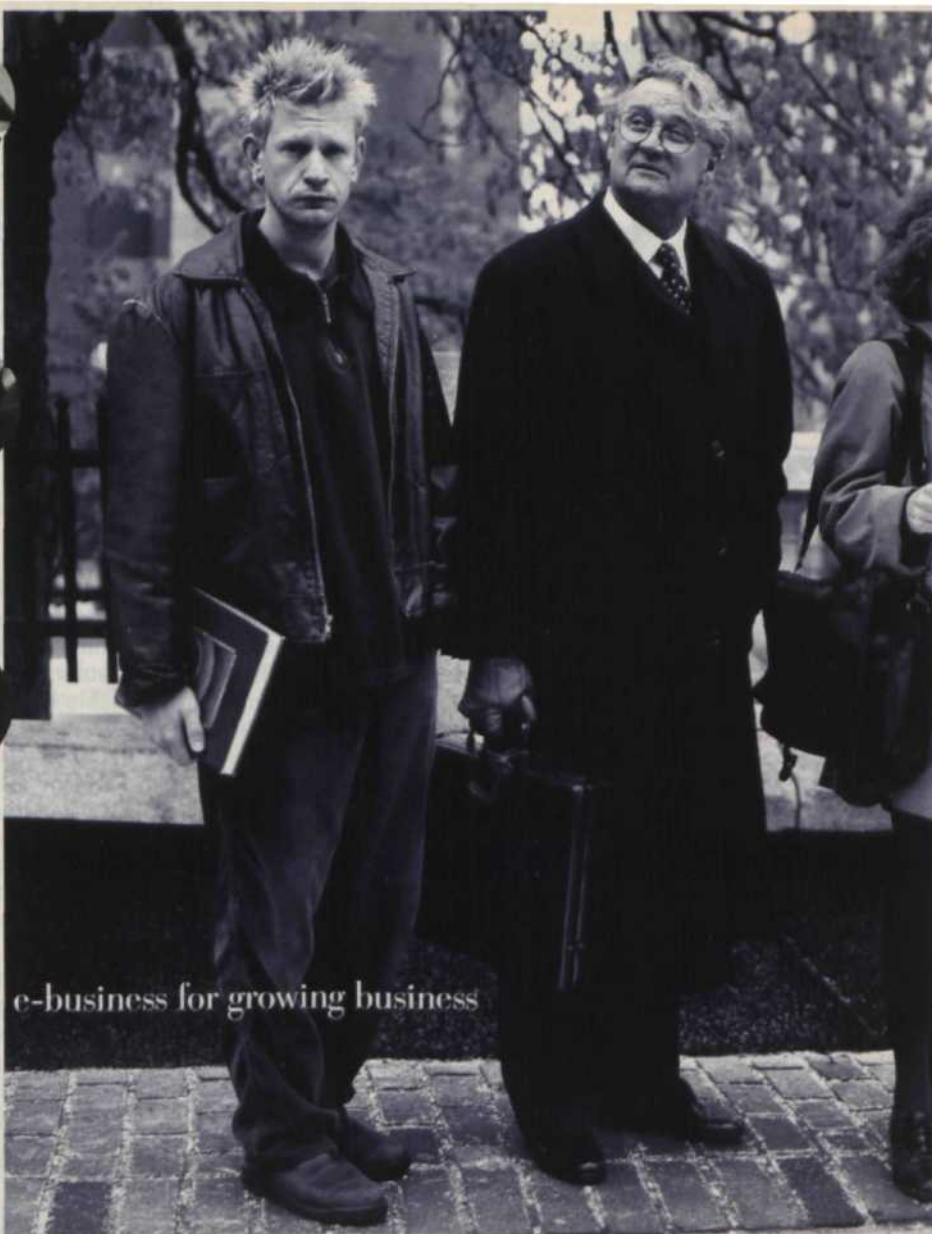
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## SPECIAL REPORT ON TECHNOLOGY

the challenge of the Windows CE palm computers.

The Palm III is designed to help users stay connected by maintaining contact information, organizing data, and retrieving electronic mail and other messages. It can store up to 6,000 addresses, 1,500 memos, and 200 e-mail messages in its 2MB of memory. 3Com's handwriting-recognition software, Graffiti, allows users to write and store simple memos.

An optional modem allows users to connect to the Internet to access e-mail and the World Wide Web. Retail price: \$399.

### Casio Cassiopeia E-10

One of the first palm-style Windows CE devices is Casio's Cassiopeia E-10. This pocket-size device has 4MB of memory and a slot for flash memory cards that enable storage of large amounts of data.

Its black-and-white display measures 3.5 by 2.5 inches and is backlit for easy reading.

Three application buttons on the front of the case can be programmed to launch frequently used software applications. Users can also access applications by using a pen-stylus to touch icons that appear on the screen.

Cassiopeia has a voice recorder that can record and play messages. Retail price: \$399.95

### IBM WorkPad

IBM's WorkPad personal organizer, based on 3Com's Palm computing architecture, is loaded with features that make synchronizing data between it and a computer easy.

It also comes with a datebook, address



3Com Palm III

book, memo pad, expense manager, and e-mail program. The WorkPad has a backlit black-and-white display with four on-screen "buttons" that users touch to launch applications. It also has three program-launch buttons built into the case.

It comes with 2MB of memory for running programs and storing data. Retail price: \$399 and up.

### Philips Nino 300

Philips follows its stylish Velo hand-held PC with a palm version called Nino. Like the Velo, the Nino 300 has a distinctive metallic appearance and distinctive computing features.

Available in 4MB and 8MB versions, both running Windows CE 2.0, the Nino has a backlit black-and-white display and is longer than most palm devices. The added space is used to locate all the control buttons conveniently along the device's two sides. But even with the additional space, Nino weighs just 7.3 ounces. Nino also has an on-screen keyboard operated by pressing the "keys" with a stylus, and it has handwriting recognition for written input. A clip-on 19.2-Kbps modem is standard on the 8MB version and is available as an option for the 4MB model. Retail price: \$400 and up.

## Hand-Helds

### Hewlett-Packard 660LX

HP's 660LX hand-held has PC-like computing capabilities, including a generous 32MB of memory for running applications and 16MB of ROM (read-only memory) for storing data. The device features a backlit color display, a keyboard, and a touch-screen for stylus entry of data.

It's also bundled with a 56-Kbps PC-

card modem. The HP 660LX runs under the Windows CE 2.0 operating system and includes "pocket" versions of Microsoft's Word, Excel, Internet Explorer, and Outlook software. Retail price: \$999.

### LG Electronics Phenom Ultra

An enlarged keyboard, wide display, and array of built-in communications and memory features make the Phenom Ultra an extremely useful business tool.

An 8.5-inch color display makes it easy to use software programs, including "pocket" versions of Microsoft's Word, Excel, Internet Explorer, and Outlook.

The keyboard is relatively wide, too, with fat keys that allow users to touch-type. Inside, the Phenom Ultra comes with a 33.6-Kbps modem, 16MB of memory for running applications, and 12MB of ROM for storing data. Powering it all is a rechargeable lithium-ion battery. Retail price: \$899.

### Sharp Mobilon HC-4600

Sharp's Mobilon has been beefed up with PC-like features, too. In addition to running Windows CE 2.0, it has 16MB of memory, a 6.5-inch color display, a larger keyboard, and a 33.6-Kbps modem.

The Mobilon includes standard Windows CE applications such as Microsoft Word and Excel and software that enables the device to access company networks and run programs remotely from a server.



Sharp Mobilon HC-4600

The Mobilon is intended to be a multimedia input tool as well. With the connection of an optional digital camera card, the Mobilon can be used to take color pictures.

The Mobilon also comes with image-editing software, a video player for playing back video clips, and software that links photos to contact information. Retail price: \$899.

## For More Information

Additional details about the organizing products described in this report can be obtained by calling the phone numbers or visiting the World Wide Web sites listed below:

A.T. Cross Co., 1-800-510-9660, [www.cross-pcg.com](http://www.cross-pcg.com)

Casio Inc., 1-888-204-7765, [www.casio.com/e10](http://www.casio.com/e10)

Hewlett-Packard Co., 1-800-322-4772, [www.hp.com/handheld](http://www.hp.com/handheld)

IBM Corp., 1-800-426-7255, Ext. 4751, [www.ibm.com/pc/us/workpad](http://www.ibm.com/pc/us/workpad)

LG Electronics Inc., 1-800-243-0000, [www.lgphenom.com](http://www.lgphenom.com)

Mitsubishi Electronics America Inc., 1-888-445-5250, [www.mitsubishi-mobile.com](http://www.mitsubishi-mobile.com)

Philips Electronics SV, 1-888-275-8356, [www.nina.philips.com](http://www.nina.philips.com)

Sharp Electronics Corp., 1-800-237-4277, [www.sharp-usa.com](http://www.sharp-usa.com)

3Com Corp., 1-800-881-7256, [www.palm.com](http://www.palm.com)

Toshiba America Information Systems Inc., 1-888-598-7802, [computers.toshiba.com](http://computers.toshiba.com)

## Mini-Notebooks

### Mitsubishi AMiTY CN Model 2

Mini-notebooks make up a relatively new product category, but competition is brewing already. Mitsubishi's AMiTY CN was introduced last fall to challenge Toshiba's Libretto, and it recently was upgraded to be even more powerful.

The AMiTY CN Model 2 weighs 2.6 pounds, and its 8.4-inch color display is large enough to work comfortably on most word-processing and e-mail documents. Inside, the AMiTY CN is powered by a 166MHz Pentium MMX processor and has 32MB of memory and a 2.1GB hard



drive. It runs Windows 95 and compatible software programs.

The AMiTY CN comes with notebook PC features such as two PC-card slots and ports for connecting peripherals such as a printer or the external floppy-disk drive that comes with the system. Retail price: \$1,999.

### Toshiba Libretto 100CT

Toshiba's innovative Libretto was the first to straddle the line between notebooks and hand-held PCs. The latest model, the 100CT, weighs just under 2 pounds, but with a 166MHz Pentium MMX processor, 32MB of memory, and a 2.1GB hard drive, it compares favorably in capabilities with some entry-level notebooks.

Sure, the 6.1-inch color TFT display and scaled-down keyboard aren't notebook-size, but the Libretto does allow users to run Windows 95 and common PC applications. The Libretto also comes with stereo sound and a PC-card slot for a modem or an external floppy-disk drive. Retail price: \$1,999.

## Accessories

### Cross CrossPad

Although most hand-held and palm computers permit the use of a stylus for entering information and notes, for many peo-



### Cross CrossPad

ple it remains easier to jot down notes on a paper notepad. If only they didn't keep losing those pads.

That's why pen manufacturer A.T. Cross Co. teamed with IBM to develop the CrossPad, a hand-held computer that works like a paper notepad. The CrossPad is essentially a standard paper tablet that rests on a digital notepad. Users write notes on the tablet using a digital pen that has a radio-frequency transmitter.

The pen sends signals to the digital notepad, which can store up to 50 pages in memory. The digital notes can be transferred to a PC and stored for reference or converted to computer text. Retail price: \$399.



# Communicating

*Competition and technological advances have made wireless communications cheaper and more advanced than ever.*

Small-business people have discovered the advantages of wireless communications. And never before have there been so many choices of both products and services.

Traditional analog service is giving way to more-advanced digital cellular service and personal communications services (PCS). Because of the widespread availability of these new technologies, people in many markets can choose among numerous providers of various types of wireless services.

Consequently, rates have gone down and flexible calling plans have emerged, often requiring no annual contract.

Moreover, digital cellular and PCS technologies generally provide much-improved voice quality and additional services such as paging and voice and data messaging.

Wireless phones have made remarkable advances as well. Both analog and digital phones are now available in lightweight, pocket-size models, making them nearly as convenient to carry as a wallet.

Wireless phones have also added new capabilities. Digital phones have gained messaging capabilities—many allow users to send and receive e-mail and faxes and receive news feeds. Some analog phones use cellular digital packet data (CDPD) technology to provide comparable services.

Not all data communication is wireless, though. Many users of notebook, hand-held, and palm computers still use basic PC-card modems to make calls over traditional land-line phone networks.

Most such modems now are compatible with the new "V.90" modem standard, which enables data connections at speeds of up to 53 Kbps. And ISDN PC cards allow users to dial out at up to 128 Kbps over an ISDN (integrated services digital network) connection when one is available.

In addition, there are PC cards that allow people to connect notebook PCs to their company's computer network, and there are combination modem-network cards that enable users to both dial out to the land-line phone network and connect to a local network of computers.

The following phones, voice accessories, and data products can help small-business people communicate effectively over wireless and standard phone connections.

Prices are not given for some of the phones and other devices described. This is because many service providers and

phone dealers provide these devices either free or at a deep discount to customers who sign up for services.

## Wireless Phones

### Mitsubishi MobileAccess 120 Phone

Mitsubishi's MobileAccess 120 phone is an analog cellular phone that provides users with e-mail and news feeds from the Internet through the nationwide PocketNet service of AT&T Wireless.

PocketNet uses CDPD technology to connect the MobileAccess 120 to the Internet each time it's turned on. With a connection made, users can download e-mail and selected news feeds from a personalized Web page and synchronize data stored on their phone and Web page.



**Mitsubishi  
MobileAccess 120**

The phone's standard battery provides one hour of talk time and nine hours of standby time. Both voice and data functions are viewed on a four-line display and accessed through an easy menu system. In addition to e-mail and an address book, the PocketNet service provides a calendar, a to-do list, a fax, and information feeds from Web sites such as ABC News and Bloomberg.

Users sign up for PocketNet service through their local cellular provider. Retail price for the MobileAccess 120 is \$299. The monthly PocketNet data service fee is \$29.99.

### Motorola i1000

The i1000 provides multiple communications options when activated onto a so-called iDEN network, such as the one operated by Nextel Communications Inc. The options are text messaging, numeric paging, digital cellular voice calling, and private two-way radio communications.

The latter option makes iDEN service popular among firms that have many employees scattered around a local area—in industries such as construction, manufacturing, and real estate.

The i1000 is palm-size, weighs just 5 ounces, and delivers up to 180 minutes of



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talk time or 60 hours of standby time between charges of its lithium-ion battery. Features include speakerphone operation, notice of incoming calls or pages via vibration, and caller ID.

**Nokia 6190**

The Nokia 6190 digital wireless handset is light, convenient, and loaded with outstanding features. Compatible with GSM-based (global system for mobile communications) PCS networks, the 6190 weighs just 5 ounces but provides up to five hours of talk time. GSM providers include AT&T Wireless, BellSouth Mobility, and Pacific Bell Mobile Services.

**Nokia 6190**

The Nokia 6190 has a phone directory that stores up to 255 phone numbers and allows users to organize numbers into categories. Users can send and receive short text messages, which are displayed on a large LCD screen.

**Qualcomm Dual-Mode Q Phone**

A big disadvantage of many digital wireless phones is that they don't work when the user has roamed into an area that doesn't have compatible digital service. At such times, users wish they still had their analog cellular phones. Qualcomm addresses that problem with its dual-mode Q phone, which allows users to tap into both digital and analog cellular networks.

The Q phone is palm-size and is compatible with 800MHz CDMA (code division multiple access) digital cellular networks—offered by companies such as AirTouch Cel-

**Qualcomm Q Phone**

ular, Ameritech, Bell Atlantic Mobile, and Sprint PCS—and standard analog cellular networks, allowing users to roam between different networks without losing calls.

The Q phone allows users to answer calls by simply opening the phone and talking. Incoming calls' numbers are displayed on the phone's four-line LCD screen.

The Q phone also features an auto-answer mode that screens incoming calls and rings through only those numbers that have been selected by the user. The LCD allows users to receive messages and alerts them when they have voice mail. Retail price: \$199.

**Sony CM-Z100**

The smaller-than-palm-size, 5.3-ounce CM-Z100, which features a flip-down microphone arm, is as attention-getting as it is functional. And despite its petite size, this phone is easy to operate using a dial to select menu options and frequently called numbers.

Compatible with CDMA-based PCS networks, the CM-Z100's lithium-ion battery provides 2.5 hours of talk time and 24 hours of standby time per charge. Users are alerted to incoming calls by any of five distinctive rings or by vibration. Retail price: \$199.

**PC Cards****Psion Dacom Gold Card NetGlobal 56K + Fax 10 Mb Ethernet**

Notebook PC users often need to be able to both dial out to remote networks such as the Internet and connect to their office computer network. For those without a built-in modem or network-connection device, that need often requires them to carry separate modem and Ethernet PC cards. Psion solves that problem by combining modem and Ethernet ca-

pabilities into one card. Its Gold Card provides up to 56-Kbps data transmission over modem connections. When connected directly to a local network, it can transfer data at 10 megabits per second (Mbps).

Moreover, the Gold Card can be used with ISDN service by updating the

**Psion Dacom Gold Card**

card's internal software. It can be used in tandem with a wireless phone over GSM digital networks, also by updating the internal software. In short, the Gold Card can do it all. Retail price: \$269.

**Uniden Data 2000**

Uniden's Data 2000 is a wireless PC-card modem that allows users to send and receive data over analog cellular networks using their notebook or portable PC. Unlike many modems that require users to connect to a cellular phone, the Data 2000 has a built-in cellular antenna that allows it to connect calls through the user's cellular provider.

Users merely have to dial the intended number using their PC's modem software as they would with a standard wire-line modem.

The Data 2000 transfers data at 19.2 Kbps using CDPD technology. It runs on its own alkaline or nickel-cadmium battery, so it doesn't drain power from the user's PC. Retail price: \$399

**Xircom RealPort Ethernet 10/100 + Modem 56**

This PC card combines high-speed networking and modem functions in one sleek package. The RealPort integrated PC card provides both standard and fast Ethernet access at up to 100 Mbps, as well as 56-Kbps modem connections.

The card looks like a miniature version of the external modems used with many desktop computers. It has separate jacks for plugging in Ethernet and telephone lines, and it fits in the larger Type III PC-card connection found in most notebook PCs.

The RealPort card has been designed to make it easy for users to switch between modem and network functions. It can be plugged in to a PC when users need it without requiring them to reboot their computers.

In addition to its standard data features, the RealPort can work with GSM PCS digital and analog cellular phones to make data connections wirelessly. Retail price: \$399.

**For More Information**

Additional details about the communications products described in this report can be obtained by calling the phone numbers or visiting the World Wide Web sites listed below:

AT&T Wireless, 1-888-328-2288, [www.attwts.com](http://www.attwts.com)

Mitsubishi Wireless Communications Inc., (408) 730-5900, [www.mobileaccessphone.com](http://www.mobileaccessphone.com)

Motorola Inc., 1-800-453-0920, [www.motorola.com/iden](http://www.motorola.com/iden)

Nokia Inc., 1-800-666-5553, [www.nokia.com](http://www.nokia.com)

Psion Dacom Inc., 1-888-322-6601, [www.psiondacom.com](http://www.psiondacom.com)

Qualcomm Inc., 1-800-349-4188, [www.qualcomm.com](http://www.qualcomm.com)

Sony Electronics Inc., 1-800-578-7669, [www.sony.com](http://www.sony.com)

Uniden Multimedia Corp., 1-888-686-4336, [www.uniden.com](http://www.uniden.com)

Xircom Inc., 1-800-438-4526, [www.xircom.com](http://www.xircom.com)



# Firms With Their Eyes On The Prize

By Thomas Love

Everybody knows about the legendary franchise companies—McDonald's, RE/MAX, Wendy's, and Maaco, for example.

But which currently little-known franchisors have the concept, vision, talent, enthusiasm, and ability to be legends five, 10, or 20 years from now?

*Nation's Business*, after consulting with officials of franchise organizations and others in the field, talked with seven franchisors who the experts say just might fit the bill. Here is a look at where the seven came from and where they intend to go.

Of course, only time will tell whether their optimism is well-founded. But the ideas behind these entrepreneurs' companies, and the lessons learned along the way, can help other business owners in their endeavors.

## Desert Moon Cafe

Kevin Rink was thinking of the Sonoran-style Mexican cuisine popular in the Southwest when he started his first Desert Moon Cafe in Chappaqua, N.Y., in 1991. He says he was "inspired by the quality food of the street-food operators in the Tucson [Ariz.] area—what we call Southwestern food, for simplicity's sake."

Rink put his first Desert Moon Cafes in mall food courts, and he is expanding to street-access locations in New York, New Jersey, and Connecticut. He owns all four of the cafes now open, and the company is franchising along the Eastern Seaboard, with locations planned in Massachusetts, Maryland, and Rhode Island.

"Most Americans think of quick-service Mexican food as ground meat in deep-fried hard-shell tacos, which is poor food quality," he says. "But our background is upscale, full-service, fine dining. We sent our chef, Kevin Sullivan, a graduate of the Culinary Institute of America and former head chef at some of the top-rated restaurants in the New York City area, to Arizona. He spent some time out there and came back and put together our menu, which just has tremendous flavor.

"It's quality ingredients, all natural, and it's put together in front of the customers as they work down the line," buffet-style, Rink adds, and there are no "mystery meats" or other unwelcome surprises. "Ours is grilled, skinless chicken breasts and clean, charbroiled steak. It's gua-

*A look at what might be franchising's next "Magnificent Seven" reveals insights that could be helpful to any business.*

non-Hispanic peoples, many of European background, who went down the Santa Fe Trail, bringing the cultural diversity of their forebears. "The result," says Rink, "is a food that is expressive, simple in spirit, and full of flavor."

The average meal tab is about \$6, he says, "but our customers are not just looking at the price. They're looking at value for their dollar. They're looking for something they can feel good about eating that is going to taste good.

"And our places are real cool. We focus on colors like purple and teal and orange to give them a real Southwestern feel. Our logos are the coyote and the cactus, and our dishes have names that are characteristic of the Southwest, like Sonoran Crisps and Coyote Moons."

Rink believes that the food and design of the Desert Moon Cafes will help sustain the restaurants as more than just a 1990s fad.



PHOTO: STOM SOBOLUK—BLACK STAR

Southwestern colors complement the ambience at Kevin Rink's Desert Moon Cafes.

camole fresh at least a couple of times a day from 100 percent California avocados. The fresh flavor just comes through."

Southwestern food has a multicultural history hundreds of years old, Rink says. Its main influences were the Pueblo Indians, who grew corn, beans, and squash; the Spanish, who introduced tropical fruits and beef carried with them across the ocean; and Anglos as well as other

## ConsumerCasket USA

James St. George, president of ConsumerCasket USA, based in Erie, Pa., is a fifth-generation funeral director who decided that funerals were costing too much and did something about it.

"I really wasn't comfortable in the structure of the traditional funeral home, primarily because of the pricing," he says.

In 1994, the Federal Trade Commission adopted rules for the funeral industry that made it much easier for people arranging a funeral to purchase a casket some-

where other than the funeral home. The rules prohibit any kind of penalty, handling fee, or other means of discouraging purchases of caskets elsewhere.

"I had heard about this new concept of selling caskets and funeral merchandise directly to consumers, so I set out on a monthlong sojourn to find out about casket stores and see what it was all about," recalls St. George. "I ended up visiting a number of them in Tennessee, Texas, California, and Arizona, and to tell the truth, I didn't like any of them.

"They either were in a warehouse or



## FRANCHISING SPECIAL GUIDE

they had retail space but hadn't done anything with it, or the sign was poor, or the product was lousy." One place, he says, had caskets sitting on cinder blocks.

This was not what St. George had in mind, and it's not the way ConsumerCasket operates.

After St. George returned from his trip, he and Robert Naylor, co-founder and now company vice president for operations, started a storefront operation in Erie in 1995 under the name Consumer Casket Sales.

"We met with such an overwhelmingly positive response from consumers that people started calling us for advice on how to open their own stores or make their stores better," he says. "We decided we should capitalize on this, but we weren't capitalized to open a lot of company stores, and we didn't want to be a dealership or a business opportunity because that's not really healthy for anybody, in our opinion."

So they studied franchising, decided that was the way to go, and hired a leading law firm in the franchising industry, Rudnick and Wolfe in Washington, D.C. The result was the creation of a subsidiary, ConsumerCasket USA Franchising Systems Corp., which started franchising last year.



PHOTO: MICHAEL STEINBERG—BLACK STAR

To help lower the cost of funerals, James St. George started ConsumerCasket USA.

In addition to the two stores owned by the company, there are six franchises open, contracts for nine more, and a plan to develop 50 franchises in the Midwest. "We doubled our business from last year to this year, and because our customers made it possible to do this, we have lowered our prices again," St. George says.

The firm's top-of-the-line solid-bronze casket, which sold for \$3,895 two years ago and \$3,695 last year, is now \$3,495. St. George says it would sell for \$7,000 to \$8,000 at a typical funeral home, and he adds that he recently saw a comparable casket in Seattle that was priced at more than \$21,000.

The company sells products through its stores, through its catalog, and over the Internet.

"The catalog and the Internet have been phenomenal for us," says St. George. "We sell hundreds of units that way. When units are sold in areas where we have franchises, those sales are referred to the nearest franchise owner."

"We have been very careful to make sure that our approach to franchising is very supportive," he says. "We designed our system to make sure that the dollars go through the franchise system as much as possible to enable the franchise

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# Franchising

SPECIAL GUIDE

owner—whom we consider a partner—to make those dollars.”

## The Barbers, Hairstyling For Men & Women

Joseph Francis “had a classic entrepreneurial personality,” says his widow, Florence Francis. “He never stopped launching new projects and was never satisfied.”

Florence Francis, chairman of the company her husband founded in 1963, The Barbers, Hairstyling for Men & Women, Inc., says her late husband started in the business as a shoeshine boy at a St. Paul, Minn., barber school, became a licensed barber at 17, and opened a one-chair shop at 24.

When Joseph Francis died in 1994, his Minneapolis-based firm was well on its way to being the international franchising presence it is today.

His aim was to establish training and education to develop careers for entrepreneurs, says Florence Francis, so he created programs, seminars, and training formats for the continuing education of his franchisees and their employees.



PHOTO: STEVE WOOT

*Rapid expansion of franchises is the outlook for The Barbers, Hairstyling for Men & Women, says Florence Francis, chairman, with store manager Albert Laska.*

The first franchised store in The Barbers chain opened in Duluth, Minn., in 1970. The company now has 967 stores—

all but 25 franchised—in 43 states and in Mexico, France, and Russia.

The Barbers salons operate under the names of Cost Cutters, Family Haircut Store, City Looks, The Hair Performer, and We Care Hair as well as The Barbers.

The company's presence in Russia dates to 1992, when Joseph Francis was there with an International Franchising Association trade mission. He was contacted by former officials of the country's health department, whose responsibilities had included the beauty industry. They wanted a private American firm to open in Moscow, and Francis jumped at the chance to establish a joint-venture agreement.

He also entered into a master franchise agreement with a group of salon operators in a suburb of Paris, and now there are salons throughout France. In addition, The Barbers “opened our second store in Mexico in July,” Florence Francis says.

The company finished its third quarter, at the end of June, “with a 38 percent increase” over the third quarter of 1997, says



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## FRANCHISING SPECIAL GUIDE

Francis. And as for the future, she adds: "We believe we will grow just as rapidly as we have been. During the last five years, we have added an average of 86 new salons each year."

"But we don't just open salons. We carefully choose locations to make sure that they are going to be successful. We have a wonderful success rate that we believe we can continue."

Francis gives full credit to the franchisees for the company's growth.

"Our franchisees are expanding rapidly," she says. "They are the ones producing a majority of our growth. They're doing well and are adding new stores."

### Glamour Shots

Jack Counts was looking for another photographic niche when he started Glamour Shots in 1988.

Counts got into photography as a student at the University of Oklahoma in the late 1960s. He would take pictures at fraternity parties, have them developed, and sell them to the fraternity members. He then started his own



PHOTO: DAVID FITZGERALD

Making it "a special event" for a woman as she is being photographed is the aim of Jack Counts' chain of studios, Glamour Shots.

photo lab, Party Pics.

In 1972 he started another photo lab, Candid Color Systems, which worked with

independent photographers. He expanded his party photography but soon found that was a rather seasonal business. So he branched out into high-school and college graduations and, later, into sporting events such as marathons and 10K runs.

Then he got the idea for Glamour Shots. "We had been in the photography business for a long time with Candid Color Systems, and were dealing with photographers all over the country in a lot of specialized markets," he says. "We had always tried to look at different niches to differentiate ourselves from what other people did. We were interested in finding a way to get into the portrait segment of the photographic business."

"We saw that if we could create a special event for a woman, where a woman could have a really positive experience, we would differentiate ourselves from others."

The company's target market is females from 12 to 49, Counts says.

"What we do is provide a wardrobe, makeup, hairstyling, specialized lighting, and background sets," he says. "We do

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# Franchising

## SPECIAL GUIDE

that at a price a majority of women can afford, whereas previously that kind of thing had always been done at a very, very high price."

He adds: "This is not just about selling a picture. It is an experience. When they come in, they get pampered. We help them to look their best, and they find it an uplifting experience."

"We have a slogan, 'We bring out your best in pictures.' We do everything we can to make that woman look great before we take the picture."

Glamour Shots began franchising in the early 1990s, and now there are about 175 stores. Counts owns or has an interest in about half of them, and the others are owned by franchisees.

The newest Glamour Shots stores feature what Counts calls "a revolutionary new studio." It is octagonal, with a camera in the middle and eight movielike sets around the edge.

"Someone could select having pictures taken next to a waterfall with running water or in a den or study with a fireplace and leather chairs," Counts says. "We have some giant backgrounds. One truly appears like a beach."

The company is starting to use digital technology for retouching and other jobs,

and it will colorize black-and-white pictures.

With the new technology and the new studios, Counts says he will continue to do well in what he calls a very competitive marketplace.



PHOTO: CICAL DIMARCO JR./BLACK STAR

To help the elderly scale back their possessions when they scale back their living quarters, Joan Needham started The Resettlers.

## The Resettlers

It was nearly 20 years ago that Joan Needham noticed that many older people moving from their homes into the smaller quarters of retirement and nursing homes faced an unforeseen need—disposing of many of the goods accumulated over a lifetime.

To help older people facing that circumstance, Needham started The Resettlers in 1981.

"These people moving into retirement centers in the area were arriving with too many things and a mountain of boxes," she says. "Some of them were physically able to handle it, but others just didn't even know where to begin."

"The basic problem is that when you're looking at 50 years of accumulation, it can be overwhelming. We can be a friend at the other end of the tele-

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## FRANCHISING SPECIAL GUIDE

phone whom they can call if they are overwhelmed, and we'll guide them through."

Needham's firm, based in Centreville, Del., began with services for "basically unpacking and resettling" clients, she says. "Then, as we got into it, we found they had a need to get rid of all their excess items. This seemed to be a major problem, so we got into the retail part."

The Resettlers now offers clients consignment sales, in which items are put on sale at one of the company's three retail locations, and tag sales, in which a house's items are sold on the premises, with unsold items later removed to one of the retail locations. Clients also can arrange with The Resettlers for an estate purchase, in which the entire lot is bought out, and for appraisals of antiques, art, and furniture.

"There are enough of us that have expertise in different fields—such as glass,

silver, and art—that when we get our heads together, we have a feel for the retail market," Needham says. "We make up a cross section in sharing opinions and ideas. We all have different interests and



PHOTO: GUSTAVO WOI

**Giving kitchens a new look with cabinet refacing gave rise to Gerald Baldner's franchise system, Kitchen Solvers.**

read different things. It's that input that makes us good."

The Resettlers offers a complete service for those moving from a larger home to smaller quarters. Although most of the firm's customers have been elderly, it offers its services to anyone. The company will pack belongings, arrange for storage or moving, unpack at the new residence, sell excess property, appraise items, and clean out the old residence for the new occupant.

In the early 1980s, the company was handling only a few moves a month. Since the company has grown, largely through word of mouth in Delaware and southeastern Pennsylvania, the number has risen to the hundreds.

"There is a real demand for our services," says Needham. "In fact, people get quite upset when we can't work in New Jersey, where we're not licensed."

The company has retail stores in Centreville—the firm's corporate headquarters—and in Wilmington, Del., and Lafayette Hill, Pa., and it is moving into franchising. "We tested the waters a little last year," Needham says, to make sure that The Resettlers concept as a franchise "is something that would interest people." It does, she says.

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# Franchising

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The company has a franchising page on its Internet site ([www.resettlers.com](http://www.resettlers.com)), and Needham says the interest, particularly in Maryland and Pennsylvania, has been strong. "We will aggressively market the concept this fall."

### Kitchen Solvers

Gerald Baldner, who left a career as a college teacher to open his own business in 1982, is president of Kitchen Solvers, a cabinet-refacing company.

"I was a social worker, with a master's degree in psychiatric social work, teaching at a small private college in La Crosse, Wis., but I always knew I wanted to own my own business someday. Only I wasn't sure what," he says. "I came across the concept of cabinet refacing," he recalls. "It was appealing to me because it made so much sense. I just knew it would work if it were done right."

"We started out of our home in May of 1982, and we had almost immediate success. We put fliers in some papers, brochures in beauty shops, and sent kids around the neighborhood with fliers. We did so well that we opened up a small storefront five months later, and now we're into our third showroom, each one being bigger."

"In 1984, we wanted to expand our business, but at the same time we didn't really want to have a lot of other employees or satellite offices." He knew little about franchising, he says, so he did some homework and decided it would be a good way to grow. Later that year he started franchising.

"I knew that if we were going to be successful we would need a good-quality product," he says. "So at the same time, I started a cabinet-door-manufacturing company for our business. It got so big that I later sold it to two partners I had taken on."

That company is one of six approved vendors that Kitchen Solvers franchisees are required to use. If a franchisee finds other vendors able to meet company standards, Baldner is willing to check them out and add them to the list.

In addition to having a quality product, Baldner says, he realized that he needed quality employees, but he was having trouble finding them. "We just became frustrated with some of the people we hired," he recalls. "It seemed that the person we interviewed was not the person who showed up for work."

"So in 1989, I started doing something I was told you are not supposed to do—I started hiring friends, people whose values and morals I knew. I knew how they interacted with people, so I didn't have any surprises when they came to work. I believe that it is easier to teach somebody a skill than a personality."

The kitchen industry has changed in the past five to 10 years, Baldner says: There are more people wanting to update their kitchens more often.

Kitchen Solvers, which has refaced more than 10,000 kitchens, has grown to 72 franchises in 22 states.

Baldner is buying Kitchen Wizards, a Waco, Texas, company that has 20 fran-



PHOTO: NANCY PIERCE

*Buying promotional and other business products can be streamlined for small firms when they use the services of Greg Muzzillo's firm, ProForma, through franchisees such as Kim Cope.*

chisees. He's also buying that company's cabinet-recoloring technology so that Kitchen Solvers franchisees can offer their customers a less expensive alternative.

"We're very excited about adding a whole new dimension to our business," says Baldner.

### ProForma

When Greg Muzzillo started ProForma, his Cleveland company, he knew he had figured out a way for businesses to simplify their purchases of custom printed and promotional products while saving money.

"I got into this business in 1978 because a buddy of mine was in the field but was working for a company run by a pretty terrible guy," recalls Muzzillo, ProForma's CEO. "I knew accounting and he knew sales and marketing, and we saw distribution of printed matter as the kind of business two young people could start with a phone-answering machine in an apartment."

"We sent out some nice letters to a few manufacturing plants asking if they would give us some credit, and when they said they would, we each put in \$100, bought

some business cards and a letterhead, and away we went."

By 1982, sales had exceeded \$1 million. In 1985, the company was recognized as the national Small Business of the Year by the U.S. Small Business Administration, Muzzillo says.

He started franchising in 1986 and moved into Canada in 1991.

"Our customers can eliminate three, four, maybe five vendors by using our services," he says. "Our franchisees have the ability to offer them a wide array of business, stationery, and imprinted advertising specialties."

ProForma's promotional materials point out that companies used to have enough time and staff members to complete projects of any size without snags or stress. Now, however, with downsizing and the move toward leaner organizations, companies must do more with lower budgets, smaller staffs, and less time.

"At ProForma, our job is to help by providing intelligent solutions that produce graphic results

with a lot less stress," the company says. "We offer the broadest line of products and support services available today, backed by a thoroughly trained and experienced team of sales and service professionals."

Says Muzzillo: "The second advantage we offer is value. Because we are in excess of a \$100 million organization, manufacturers offer our franchise owners and their customers the best value possible, which includes price, quality, and service."

Most of ProForma's competitors are far smaller companies that can't meet the prices ProForma gets from manufacturers "who bend over backward for us and our customers," Muzzillo says.

Among the products carried by ProForma are embroidered clothing, multi-color brochures, posters, printed and electronic catalogs, checks, labels, CD-ROM communications, and inventory-management programs.

As of midyear, the company had 308 stores owned and operated by 255 franchise owners throughout the United States and Canada. Muzzillo says he expects the company to hit \$1 billion in sales by 2001.



# Family Business

*Locating experts and resources; avoiding the appearance of favoritism; anointing a leader*

## OBSERVATIONS

### Where To Find What You Need

By Sharon Nelton

From time to time, I get calls from readers who want referrals to consultants who can help them with family-business problems. I usually refer them to the Family Firm Institute in Boston, at (617) 789-4200.

The FFI offers a free *Directory of Speakers & Consultants* both in print and at its World Wide Web site, [www.ffi.org](http://www.ffi.org). Listings are paid for by consultants who want to be in the directory; it is not a complete list of FFI members, who include therapists, accountants, lawyers, and various professionals serving family firms. (For the record: I am on the FFI's board of directors.)

When readers call me, I also suggest that they call any of the family-business forums or centers in their area; most are based at colleges or universities. Again, you can find the educational centers nearest you by calling the FFI or visiting its Web site.

#### Comments And Connections

The FFI's Web site, as you may have noticed, now lets you comment on the *Nation's Business* Case Study. In other words,

if you don't agree with the experts' responses to a family-business dilemma, you can offer your own solution—or just complain, if you like! As the note accompanying this month's Case Study on Page 70 mentions, you can access the Case Study directly at [www.ffi.org/forums.html](http://www.ffi.org/forums.html).

Moreover, the FFI's Web site has links to other family-business sites and gives top ratings to the following:

■ [www.stu.edu/eWeb](http://www.stu.edu/eWeb) is eWeb, an entrepreneurship-education site at St. Louis University.

■ [www.fambiz.com](http://www.fambiz.com), a site operated by NetMarquee Inc. in Needham, Mass., offers links to some university family-business Web sites.

■ [www.familybusiness.orst.edu](http://www.familybusiness.orst.edu) is the Austin Family Business Program at Oregon State University.

■ [www.arthurandersen.com/cfb](http://www.arthurandersen.com/cfb) is the Arthur Andersen Center for Family Business.

■ [www.fbrinc.com](http://www.fbrinc.com) is put together by the Family Business Roundtable, a consulting group in Phoenix.



#### Insights In Print

Two books of interest to family-business owners have crossed my desk recently.

One is *Entrepreneurial Couples: Making It Work at Work and at Home* (Davies-Black Publishing, \$26.95), by Kathy Marshack, a Vancouver, Wash., psychotherapist specializing in family businesses and couples in business together.

The other is *Good Company: Caring as Fiercely as You Compete* (Addison Wesley, \$25), by Hal F. Rosenbluth and Diane McFerrin Peters.

As the fourth-generation CEO of Rosenbluth International, a global travel-services firm based in Philadelphia, Hal Rosenbluth has taken his family firm from \$20 million in annual sales in 1974 to nearly \$4 billion today.

In this, their second book, he and Peters, a former communications executive for the firm, emphasize that companies have an obligation to have a positive effect on their employees.

That's obviously a philosophy that has worked for Rosenbluth. ■

## PLANNING

### Resolving Conflicts Of Interest

By John L. Ward and P. Phillip Sidwell

A conflict of interest, as defined by Webster's *New Collegiate Dictionary*, is "a conflict between the private interests and the official responsibilities of a person in a position of trust." When individuals' private interests are as tightly interwoven as those found in successful family businesses, conflicts of interest are common and virtually inevitable.

Consider some of the situations that frequently confront business-owning families:

■ "My sister is a private pilot. Should we hire her to fly us on sales trips?"

■ "My wife's best friend, an entrepreneur, asked her for a special introduction to the company's purchasing manager. Should

I call down there and encourage an appointment?"

■ "My uncle's son-in-law is a contractor. Should we hire him to expand the parking lot?"

■ "My son is starting his own business. Should we use his product as a sales-promotion item?"

■ "My nephew's business could really use some capital. Should we invest in his firm?"

■ "My daughter is moving into a new apartment. She wants to borrow the company truck. Should we let her?"

It's not surprising that real or perceived conflicts of interest can lead to painful and emotional family battles. How do you



John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. P. Phillip Sidwell is an Atlanta-based principal in the Family Business Consulting Group in Marietta, Ga. Copyright © by the Family Business Consulting Group, Inc.



manage conflict of interest and the family disagreements that can ensue?

### Just Say No

The simple answer in all of these situations is "no," and it is a valuable answer for many reasons. Family dealing can demotivate employees if it makes them wonder whether they are working for a business or a family-welfare agency. Some employees seek the same favors: They have a brother who's a pilot or a son who could make good use of the truck next weekend.

Engaging in such arrangements damages the credibility of the company's compensation plan. Are family members and employees really rewarded on merit, or are other business practices used to shore up family members' incomes?

What happens when a family member who is a supplier fails to perform as expected? And what if two in-laws are business lawyers? Which one do you choose?

Often, potential nonfamily suppliers and customers will be wary of a firm with a web of intrafamily business dealings. If the family business ever seeks to go public or bring in a financial partner, any business relationship with outside family members will be challenged.

Conflicts of interest lead to emotional problems as well, such as miscommunication, jealousy, and manipulation.

### "Yes, But ..."

Family-business life consists of the constant and complex balancing of business, family, and individual interests. And since a simple "no" often won't suffice, business owners are tempted to justify doing business with family members. They respond to the suggestion to say "no" with "Yes, but ..."

Since family firms are often big economic fish in small community ponds, family members who can't do business with the company may feel placed at an unfair disadvantage by their relationship to the owning family. For example, what will potential nonfamily customers say? Isn't the relative's business good enough to satisfy his or her own family?

Family members in the business often work all-consuming hours. They created the business. Aren't they entitled to some perks or advantages? Surely the employees would accept and understand.

### Anticipate Conflicts

We appreciate this viewpoint, but we stand by our recommendation to say "no." We suggest that the family be proactive in anticipating potential conflicts of interest and, if possible, adopt as a policy that no one in the family does business with the family business. The firm should be run as objectively as possible, with everyone focused on the bottom line for the best interests of all.

We believe that the "no business" rule helps family members outside the business with their careers. Self-reliance is

often the key to growth and success. When family members not active in the business succeed without easy family sales, they have more confidence in their achievements.

However, when an outright ban on doing business with outside family members seems impossible, we suggest adopting the following guidelines:

- The firm will seek competitive bids for all controversial projects.

- A company committee of nonfamily managers will evaluate

and select suppliers and will evaluate the quality of service provided by outside family members.

- Family shareholders will be fully informed of all arrangements with family members.

- Family members will pay for using business resources, and the same opportunity may be extended to all employees.

- When friends make requests, family members will be prepared to respond, "I'm happy I can provide you with an appointment, but please know I'll have nothing to do with the decision."

- Family members' use of pressure to secure employment or special treatment for others will be strictly avoided.

Conflict-of-interest matters often get very emotional. The issue of trust lies just below the surface. Pre-existing anger, resentment, perceived unfairness, pecking-order issues, and communication breakdowns are aggravated.

We find that developing a written policy and gaining the family's buy-in can help prevent many conflicts. When conflict-of-interest disputes surface, deal with them quickly and directly, despite the discomfort. Then discuss the matter at a family meeting so the entire family will understand the problem and support the solution.



ILLUSTRATION: TROY THOMAS

## MARK YOUR CALENDAR



### Sept. 16, Oshkosh, Wis.

"Preparing the Next Generation" is the topic of a meeting of the Wisconsin Family Business Forum at the University of Wisconsin Oshkosh. Call 1-800-232-8939.

### Sept. 16, Meriden, Conn.

"Assuring the Ultimate Legacy—How We Govern Ourselves" is a conference featuring nationally known author and family-business adviser Donald J. Jonovic. To be repeated Sept. 17 in Westport, Conn. Call the University of New Haven Center for Family Business at (203) 932-7421.

### Sept. 23, Weston, Mass.

"How To Handle Stress From the Press" is an offering of the Northeastern University Center for Family Business. Call (781) 320-8015.

### Sept. 24, Philadelphia

"A Wacky, Whimsical and Wonderful Sibling Strategy: How We Did CPR On Our Family Business" features the actual experiences of the sibling-owners of a local business. Call the Delaware Valley Family Business Center at 1-800-296-3832.

### Sept. 25, St. Louis

"Family Business Wealth: Preventing and Managing Conflict," a program of the Family Firm Forum at St. Louis University, features Joyce Brockhaus, an internationally recognized consultant to family businesses. Call Jeanne Rhodes at (314) 977-3850.

### Sept. 25, 1998, Through June 12, 1999, Cleveland

"From Sons and Daughters to CEOs: An Advanced Program for Future Chief Executive Officers of Family-Controlled Corporations" is a special series offered at Case Western Reserve University. Call Laura Watt at (216) 368-2041, Ext. 2041.

### Oct. 6, Minneapolis

"No Failure of Nerve: Success Strategies for Women in Family Business" is a luncheon seminar offered by The Legacy Associates for Family Enterprise. Call Carol Rinkoff at (612) 475-9353.

### How To Get Listed

*This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.*



# Case Study: Choosing Between Siblings

Pat, 36, and Jody, 35, are siblings employed in their family's \$5 million company, Mayday Ambulance Service, Inc. Both have brand-name MBAs, and they entered the business at about the same time.

They are both capable leaders and have achieved significant success in their own divisions of the company. Their styles are different, however. Pat is more introverted, a planner, and strong on detail and follow-through. Jody is more extroverted and creative and possesses excellent interpersonal skills.

Though they have different personal interests and travel in different circles, they have always been fairly competitive with each other.

Their dad, Malcolm, 59, founder and president of Mayday, wants to address succession issues. The future of ownership is perfectly clear to him. "Ultimately, Jody and Pat will each own 50 percent of the

common and voting stock," he says.

When it comes to leadership succession, however, Malcolm is stumped. "Every so often, I consider the notion of co-leadership, and I wonder if it might work. I've done a lot of reading about family-business issues and want to avoid a stalemate, but both of my children are capable leaders. I think they ought to decide for themselves who should run the company."

And, of course, Pat and Jody think Dad ought to be the decision maker. So what is Mayday to do?

## Response 1

### Take A Test Drive

A co-leadership arrangement can work, but it can also lead to conflict. Rather than Dad or the children guessing about whether it will work, Pat and Jody should take a road test.

The siblings can engage in a rigorous process directed by a neutral third party, and at the end, either they will have the confidence that they can forge a strong partnership or they'll know that working as co-leaders isn't for them.

The road test consists of creating a "partnership charter." This is a written document that goes well beyond the legal and financial concerns of the usual shareholder or partnership agreement and beyond the obvious issues of decision making, compensation, perks, and resolving impasses. It deals with the sensitive issues, such as bringing in additional partners or family members, measuring and rewarding performance, comparing levels of ambition and commitment, discovering what each brings to the business and takes out of it, and determining what feels fair.

As part of the process, they would examine their personal styles and values to see how these mesh and include what they would be willing to do to enhance their working relationship.

Creating a charter also involves extensive scenario planning. A mediator or trusted adviser gets the siblings to negotiate their way through myriad "what ifs"—for example, what if the company's fortunes nose-dived and capital infusions were required?

If they learn that they can negotiate with each other and complete a charter, they'll deserve their father's—and each other's—trust and confidence. The process of working on a charter removes the guesswork. And if they can do it, they'll have an invaluable map to guide them into the future.



ILLUSTRATION: TROY THOMAS

## Response 2

### Decide As A Group

The decision on leadership succession must be reached jointly by Malcolm and his children. Pat and Jody must be comfortable and confident that co-leadership is a viable option for them.

Before starting the succession discussion, Malcolm needs to set his own goals, determining if and when he would like to retire. This information is crucial to Pat and Jody in setting their own goals. Mayday must also have a clear, strategic business plan, and ultimately that plan and the succession plan must complement each other.

The family must also appreciate the difficulties of co-leadership. It is an equitable and harmonious concept, but it can be very difficult to execute. It requires the following:

**Well-defined roles.** Pat and Jody should evaluate their strengths and weaknesses to determine the roles in which each is most comfortable and effective. They should also define the roles of nonfamily members who are critical to the business.

**Respect for the roles.** The family must clearly communicate the roles that siblings have agreed upon to Mayday's other managers and employees. Pat and Jody must respect the roles they have defined and insist that others also respect the roles.

**Communication.** Each co-leader must be the alter ego of the other. They must have constant communication and share information while respecting each other's decision-making realm.

The family may want to use a third party to facilitate the leadership discussions. This independent party will do reflective listening and keep the discussions on course.

In addition, the family should seek out other companies with co-leaders; they can offer practical advice and help Jody and Pat avoid pitfalls.



PHOTO: T. MICHAEL KEZA  
*David Gage, founder and a principal of Business Mediation Associates in Washington, D.C.*



*L. Joseph Comeau III, a partner of Arthur Andersen LLP and leader of the Private Client Services practice in the firm's Boston office.*

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Boston. You can comment on this case study on the World Wide Web at [www.ffi.org/forums.html](http://www.ffi.org/forums.html).



# Free-Spirited Enterprise

By Michael Barrier

## Music In The Air(port)

As any frequent air traveler knows, airports are becoming increasingly indistinguishable from shopping malls, with many of the same stores and restaurants. You can still find plenty of airports, even big ones such as Chicago's O'Hare, that haven't gotten much beyond plain-vanilla newsstands and gift shops, but their numbers are declining.

Airport retailing isn't the same as ordinary retailing, though—at least not yet. For one thing, not many malls require their customers to pass through metal detectors.

To get the hang of the differences, we talked recently with Amy Nye Wolf, the 30-year-old proprietor of a chain of airport stores called AltiTunes. Wolf, who started her business four years ago, had 12 stores open when we talked to her, and she was planning to open nine more by year's end. She started with stores at New York-area airports, and she has since expanded to Washington, Baltimore, Orlando, Fla., Memphis, Tenn., and Boston, among others.

AltiTunes sells compact discs and cassettes (the latter now account for less than 10 percent of its sales) at kiosks that are closer in appearance to traditional newsstands than to the CD stores in malls. Despite the growing number of portable CD players you see on planes, you'll have trouble finding a full-scale CD store in an airport—and, Wolf says, that's no accident.

"When you come up with an idea for a business," she says, "the first thing you ask yourself is, why hasn't anybody

The kiosk's small size limits her stock, of course, but she works with a distributor that can restock her stores overnight, "which is great for your cash flow."

Surprisingly, perhaps, there's not a lot of variation from airport to airport in what people buy. "In New York, we do a lot of business with

they might have made at a more traditional store.

What's involved for retailers in getting into airports? "Patience," Wolf says.

"Even four years ago, when I started," she says, "the idea of plunking a kiosk down against a blank wall was fairly novel. Now a lot of airports are open to that idea." On the other hand, "there are still some that think they're there just to put people on a plane and get them out of there."

A firm like hers can benefit, though, when an airport is dragging its feet in that way. "I personally prefer the situations where there's less retail," she says. "They tend to be less expensive to get into, and I have much less competition for time and money. If it's just us and a generic souvenir shop, we're much more attractive."

The peculiarities of airport retailing are such, Wolf believes, that she probably will never have much competition from big retailers like Tower Records. Big retailers are accustomed to getting their way in the malls that they anchor, she says, but in airports, they have to take second place to other concerns (think again about those metal detectors).

AltiTunes has thus found what looks like a pretty secure niche within a niche market; but success, as every successful small-business person knows, can bring its own problems.

There's the matter of AltiTunes' name, for example. As fitting as it may be for airport-based kiosks, it really doesn't work for New York City's Grand Central Terminal, where a kiosk was scheduled to open in late August. Its name: "Train Tracks."

else done this?" The answer, she says, is that "music is a very low-margin business. Airports are very expensive, and the way that they structure their rent is typically as a percentage of your sales. They're used to working with gift operators, who make a 50 percent or better margin. We're lucky if we get 35."

That's why she turned to the kiosk format: "To build a kiosk and staff a kiosk and put inventory into a kiosk requires a lot less capital and overhead" than a conventional store.

Broadway show tunes," she says. "Down South, it's more country and gospel. But when you're in an airport, you're not dealing with people just from that area. You're dealing with a lot of out-of-towners."

Wolf believes that fewer than half the CDs sold at AltiTunes are being bought so passengers can listen to them on the planes. Here, she suggests, is where airport retailing and shopping-mall retailing really are converging: More and more customers are making purchases at the airport that





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## Health Insurance

**H**igher health-insurance costs could force many small businesses to drop medical coverage for their employees, according to the results of the Where I Stand poll in the July *Nation's Business*.

More than half of the respondents indicated that they would drop coverage in response to increases of 20 percent or less.

Here are the complete results of the poll:



### Questions And Answers

Is your company facing higher health-care premiums this year?

Yes.....85% Don't know.....6%  
No.....9

Do you believe that government benefit mandates add significantly to the costs of your company's health insurance?

Yes.....83% Don't know.....9%  
No.....8

Would higher health-insurance premiums affect your company's willingness to provide medical benefits?

Yes.....84% No.....16%

How large would an increase in health-insurance costs have to be to force you to drop coverage?

Less than 10 percent.....14%  
10 to 20 percent.....41  
21 to 30 percent.....26  
More than 30 percent.....19

Would your workers have to bear part of the additional cost of premiums if health-insurance expenses increased?

Yes.....87% Don't know.....9%  
No.....4

Would higher costs cause some of your workers to drop medical coverage?

Probably.....66% Don't know.....19%  
Probably not.....15

Would you continue to offer health benefits if federal legislation were passed making employers liable for medical-practice lawsuits?

Yes.....11% Don't know.....22%  
No.....67

## On Workplace Safety



The federal Occupational Safety and Health Administration can be an intimidating agency for businesses, especially small ones in industries that are prone to worker injuries. Now, OSHA is trying to work cooperatively with businesses without giving up its enforcement powers. (See the Cover Story, Page 14.) These questions seek your views on the agency.

Results of this poll will be published in the November issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1

Do you think laws and regulations on workplace safety and health are administered too harshly by government inspectors?

1. Yes
2. No
3. Don't know

4

Should employers be exempt from penalties for a year if they fix any health or safety hazard found by an independent, non-government inspector?

1. Yes
2. No
3. It depends on the violation

2

Do you think the underlying laws and regulations are fair and appropriate?

1. Yes
2. No
3. Don't know

5

Should OSHA issue a rule on repetitive-motion injuries that sets a maximum number of exertions allowed for workers in a certain time period?

1. Yes
2. No
3. Don't know

3

Has your business been inspected for safety by OSHA or state officials within the past five years?

1. Yes
2. No

6

Have you or any of your employees had a serious on-the-job injury that could have been avoided by greater attention to safety?

1. Yes
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# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*

## A Soft Spot For Whimsy

By Al Ebberts

Say you're browsing in a furniture store and run into "Dan the Recliner Man," relaxing in a floor-sample reclining chair, wearing a Brooks Brothers shirt and tie, holding a cup of coffee and a copy of *The New York Times*. It can be startling.

Dan is one of about 90 life-size Softie figures—his contemporaries include "Sam the Overnight Guest" and "Sal the Motion Gal"—made and sold by a Texas firm for use by businesses as marketing props.

These soft, Dacron sculptures, with their outsize, outlandish faces, range from butlers and businessmen to *femmes fatales*. They can be seen in furniture stores and restaurants, at private parties, and in hit movies such as "Ferris Bueller's Day Off." They are in demand not only in the United States but also in Europe, the Far East, and the Middle East.

About 275 Softies are sold each year, and revenues have been about \$200,000 annually for the past four years—not counting special orders, which can push revenues to about \$260,000.

Not bad for a cottage industry.

It's operated by two women, Ann Carlson, 60, of Dallas, and Bonita Somers, 38, of nearby Mesquite, who are partners in a growing company, Softies by Ann & Bo. The firm has no assembly plant, corporate headquarters, or

warehouse. The Softies' hands, arms, legs, torsos, and heads are made in the homes of 11 contract workers, and the parts are assembled by Carlson and Somers in their homes. Softies are shipped directly to retailers or individual buyers.

Orders from large retailers can mean sales of hundreds of Softies. Carlson says

at the University of Texas, Carlson created the first Softie, "Grandma," at home in 1979. She made the figure to attract attention at the showroom she was managing at the Dallas World Trade Center for Hillside House of Originals, a California-based furniture-industry supplier.

Her first sale—to the trade center—was a teenage-girl Softie in satin pants and shirt. "They had scaffolding all over the trade center and had these huge monkey figures crawling all over it, so they bought the teenager and placed her in the arms of 'King Kong,'" says Carlson.



PHOTO: GUY LAWRENCE

**Taking on a wide range of personae, the soft sculptures created and pieced together by Bonita Somers, left, and Ann Carlson can show up in the most unexpected places—from furniture stores to wedding receptions.**

she and Somers have shipped three blockbuster orders of 200 to 300 Softies each to furniture chains in England. Another order of approximately 200 Softies went to MJ Designs, a nationwide craft-store chain based in Coppell, Texas, near Dallas.

Using needlework skills learned as a youngster and as a home-economics major

Hillside House also liked the Softies and started displaying them in its other showrooms. Orders started coming in.

In 1982, Carlson became national sales manager at an imports company, where she worked with Somers, a buyer for the firm. Softies were selling at about 10 a month in 1988 when Carlson decided to go

*Al Ebberts is a free-lance writer in Austin, Texas.*



full time with them, and Somers joined her in 1993. "We were very good business and personal friends," says Carlson. Somers saw it as a way to be in business and be a stay-at-home mom for her daughter.

Wholesale prices for the seated Softies range from \$259 (clothing not included) to \$459 (dressed in a tuxedo). The standing

models and the L-frame models—made to sit without back support on a bar stool, for example—run from \$559 to \$759.

Although Carlson and Somers sell mainly to the furniture industry, they say they are ready to take the Softies directly to the public through catalogs targeted at high-income households. Retail prices are

\$599 for a seated Softie and \$1,399 for a standing or L-frame model, all in costumes.

A number of Softies are ending up in homes, where they are used for parties or to sit at a grand piano, for instance, or as butlers to greet guests. Says Carlson: "A lot of people come back and say the Softies get more party invitations than they do." ■

## Creole-Flavored Software

By Michael Barrier

As Greg Meffert says, "Starting a software company in Louisiana is a very unusual thing to do." And being the largest software company in the state, he suggests, is like being the best ice-hockey player in Ecuador—you don't have a lot of competition for the title.

Meffert, who founded Information Technology Systems (ITS) in New Orleans in 1992, gives away a Louisiana hot sauce at trade shows to promote his company's "hot" products. He estimates that he has handed out more than 10,000 bottles.

ITS has adopted the name Zydeco, from a form of indigenous Louisiana dance music, for what it calls its "premier suite of products."

"We stopped apologizing for it," Meffert says of the Louisiana connection, "and started almost bragging about it."

In fact, geography is becoming less and less important in getting attention. ITS's products brought in \$2.5 million in revenue last year, and Meffert expects to finish this year with \$4 million to \$5 million in sales—"although it could be \$9 million," he adds.

Once revenues rise above \$6 million or so, "all the lids come off the pots," Meffert says. "You now have a business model. Somebody may inject money and accelerate against you"—as has already happened to ITS, which has withstood a spending barrage by a much larger competitor—"but it works the other way, too."

By that he means that a software company that reaches the \$6 million range is better able to raise money for rapid expansion of its product line and distribution. A firm at that level may be a more tempting target for the competition, he says, but it can fight back more effectively as well. "Something is going to happen," Meffert says, "and what that is depends on how well we're able to do this year."

At the heart of ITS's Zydeco software is the idea that when you scan documents into a computer, you should be able to gain access to the relevant documents immediately when you're working in a related application.

Let's say you use Intuit's Quicken program to manage your personal finances and you have the entry for a particular check on your screen. With Zydeco, you can instantly summon the image of the check itself, as you have scanned it in, without leaving Quicken.

Zydeco is an infinitely adaptable link between applications and scanned documents. There are 11 products in the Zydeco line, all basically the same but each

tract to another company. He switched to the second company—but as an independent contractor and for much more money than he had been making. He used the extra money to get his own dream off the ground.

For 15 months "I lived like a monk," he says, sleeping just a few hours a night while dividing his days between his contract work and getting ITS started. After that, "it got harder," he says. "It did not get easier."

In 1995, he says, "I was able to go out and get my first round of financing," for \$1.5 million. He raised \$4 million in a second round, but he still owns 51 percent of the firm. His continuing majority owner-



PHOTO: JACKSON HILL

The software developed by Greg Meffert's firm enables users to gain access to a previously scanned-in document when working in an application such as Intuit's Quicken.

tailored to a different application. "It took us a long time and a lot of work to come up with the idea," Meffert says, but once it was in place it could be modified endlessly.

Zydeco had more than 40,000 users by last spring, up from 1,600 a year before, he says, thanks to new products such as Zydeco for Quicken.

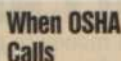
Meffert was only 26 when he started ITS. He was working as a computer engineer when his employer lost a large con-

ship is, as he says, "a very, very rare thing."

Winning in the software business, he suggests, takes more than bright people and good products. "It's too wild out there," he says. "There are too many smart people—really smart"—in the industry for intelligence alone to carry you very far. What makes the difference, he believes, are the qualities that have served him well so far: "tenacity and, honestly, the passion for it." ■

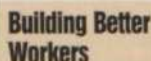


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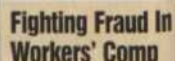
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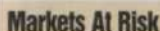
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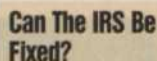
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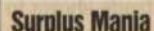
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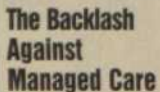
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# The View From Below

By Carla Goodman

**J**im Mayfield and brothers Patrick and Michael Stafford have more interest than most Americans in the Titanic. They're not big history buffs, but they're very serious students of how ocean vessels should be built.

The trio owns Sub Sea Systems, Inc., in Sacramento, Calif., one of the nation's few manufacturers of semi-submersible pleasure craft—boats that submerge partially and allow passengers to view the underwater world.

Their made-to-order boats are purchased by tour operators in places such as the Cayman Islands, Mexico, Indonesia, and Guam. Landing a sale for their latest design—a \$1.5 million, 100-ton, 80-foot boat for a South Korean resort operator—was a real coup since South Korea is one of the world's largest shipbuilding countries.

Sub Sea Systems has its origin in Dymetics, a Sacramento industrial-equipment firm owned by the Mayfield family. In the 1980s, Patrick Stafford managed and had a financial interest in a joint venture of Dymetics in South Africa. When the South African partner bought out the venture in 1985, Stafford and Mayfield looked for ways to invest their share of the proceeds.

Returning from South Africa, Stafford stopped in Rio de Janeiro, Brazil, where a friend told him the petroleum industry needed unmanned submarines to help with offshore drilling.

Stafford was intrigued. He and Mayfield attended a San Francisco marine-industry trade show, saw a model of a submarine, and decided to build their own. Stafford's twin brother, Michael, a former restaurant owner in Lake Tahoe, Calif., joined the project. They launched Sub Sea Systems in 1985. But after they poured \$500,000 into research and development, the project came to a halt. "We couldn't

raise the money to finish it," says Mayfield, 40, vice president of Sub Sea Systems.

In 1989, the three decided that building semi-submersible vessels for the tourism industry was a better bet. "Disney had built semi-submersible subs years ago and created the illusion of an underwater ride," says Patrick Stafford, 50, Sub Sea Systems' chairman and CEO. "We could do it better. We'd design a vessel that wouldn't run on a track, but in the real ocean. We'd then hire marine architects to do the engineering."

Island Co., a California resort operator that has two Sub Sea vessels. He says that Sub Sea staff members listened carefully to "design and build the vessels to our specific needs."

The work takes place in an old maintenance building at the former Mather Air Force Base. The firm's 20 employees work nine months to transform an aluminum shell into a high-tech boat with air conditioning, television monitors, entertainment systems, underwater lighting systems, exterior speakers, and bathrooms.

Although the boats submerge only 6 feet, passengers get the impression that they're much deeper because the windows are angled downward. "This way we create the illusion of a submarine ride," Mayfield says.



PHOTO: CLINDA SUE SCOTT

**Making boats** that give tourists a look at the undersea world has done more than buoy the firm co-owned by Michael Stafford, left, and Jim Mayfield; Sub Sea Systems grossed \$2 million last year.

Launching the new idea was anything but smooth sailing. The owners designed their first semi-submersible boat on speculation and mortgaged their homes to pay the expenses.

They also faced the formidable task of securing U.S. Coast Guard approval of the boat's design specifications. "The Coast Guard had rules for boats above water and for submarines but nothing in between," explains Mayfield. "Ours was the first semi-submersible approved by the Coast Guard. The process took 18 months."

Before the first boat was completed in 1991, Sub Sea Systems had signed contracts to design and build two more.

"Sub Sea is very user-friendly," says Joseph Caliva, vice president of sight-seeing operations for Santa Catalina

Carving a niche for Sub Sea Systems, which last year grossed \$2 million, has required its owners to adjust to the tourism industry's changing demands. The trend now is toward bigger boats with multiple features. Sub Sea Systems' latest vessel seats 138 passengers, three times more than its first design. It also converts into a sit-down restaurant for 60 people.

Capitalizing on their expertise in the underwater world, Sub Sea Systems' owners also own and operate Snuba International, a company that offers an underwater sport combining scuba diving and snorkeling (divers are linked by hoses to air tanks, which float on a raft).

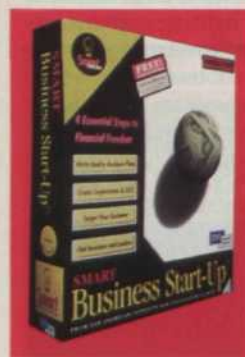
"We like to say we're going under every day and loving it," says Mayfield.

Carla Goodman is a free-lance writer in Sacramento, Calif.





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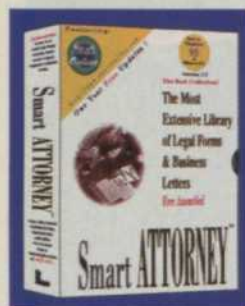
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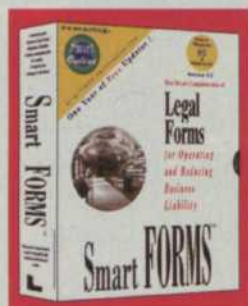


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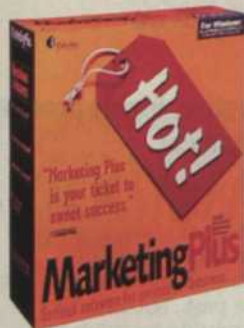


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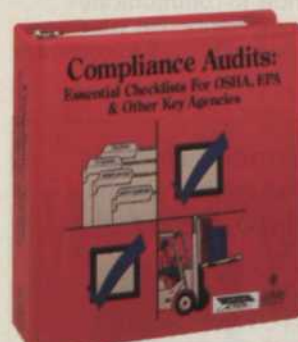


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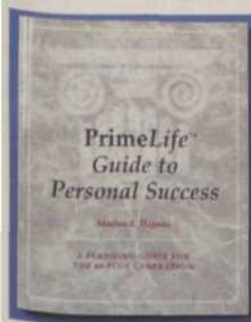


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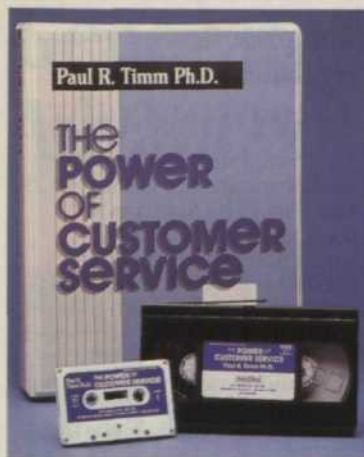
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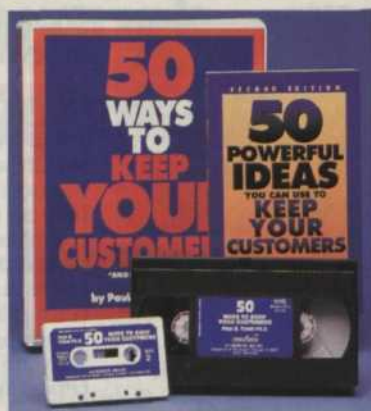
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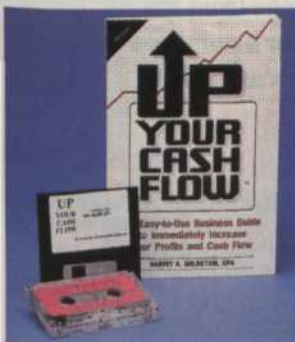
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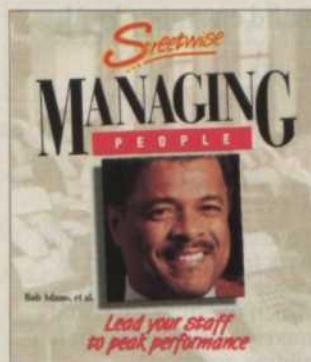


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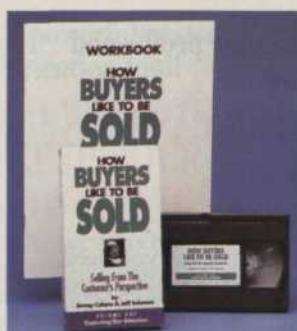


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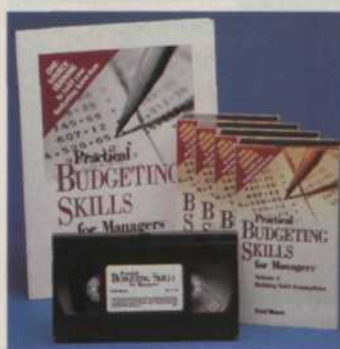
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# Direct Line

Answers to our readers' questions about starting and running their businesses.

## GETTING STARTED

### The Right Prescription For Medical Suppliers

I am thinking of starting a company that would rent and sell medical equipment. Where can I get information on suppliers?

*M.G., Jefferson City, Mo.*

The National Association for Medical Equipment Services in Alexandria, Va., represents a varied membership of more than 1,200 home-medical-equipment providers and suppliers of rehabilitation technology.

The association provides a wide range of membership services and can be reached at (703) 836-6263. The group's World Wide Web site, at [www.names.org](http://www.names.org), lists information about the industry and its members as well as related Internet sites. The association's membership fees vary according to a company's size and its annual sales volume.

A related organization is the Health Industry Distributors Association, also in Alexandria. It represents companies that sell and rent medical equipment and home-care products.

The distributors group can be reached at (703) 549-4432 or through an electronic-mail link at [www.hida.org](http://www.hida.org).

Companies that manufacture medical equipment are represented by the Health Industry Manufacturers Association in Washington, D.C. This group can be reached at (202) 783-8700 or through e-mail links at [www.himanet.com](http://www.himanet.com).

Medical-equipment rental or sales firms are generally known within the health sector as "home medical equipment" or "durable medical equipment" service providers.

Such companies rent equipment ranging from the simple—crutches, canes, walkers, wheelchairs, electric hospital beds—to the high-tech, such as intravenous pumps, respiratory-therapy equipment, chemotherapy-infusion machines, and various types of monitors.

Purchases of health-care-technology products in the United States total about \$55 billion, according to the Health Industry Manufacturers Association.

ON

As the National Association for Medical Equipment Services notes in its printed materials, as home medical equipment becomes more sophisticated and the number of people depending on it increases, medical-equipment companies



ILLUSTRATION: MARTHA VAUGHAN

must be available "24 hours per day, seven days each week, to provide necessary support services."

In addition to selling, renting, and delivering medical equipment, these companies set it up, educate patients and care givers about how to use it, work intensively with doctors, nurses, and therapists, and repair broken or damaged machines when necessary.

Federal or state agencies require professional training and certification of certain staff, depending on the specialty or type of equipment involved.

Most or all of the costs for in-home medical equipment for the elderly are paid by Medicare, the federal insurance program for the elderly and the disabled.

Because of instances of fraud by some practitioners in the "durable medical equipment" industry, however, government agencies are tightening their monitoring and reimbursement procedures, so you should be prepared for a lot of paperwork.

### Storing Up Knowledge For A New Business

I'm interested in starting a self-storage-unit business. How would I find out what regulations apply to this type of business—especially those related to storage of hazardous materials?

*J.P., Wharton, N.J.*

Contact the Self Storage Association, based in Cincinnati. It can be reached at (513) 984-6468 or through an electronic-mail link at [www.selfstorage.org](http://www.selfstorage.org) on the World Wide Web. Membership fees start at \$375 a year and rise according to how many storage facilities a member has.

Self-storage is the term for facilities that offer do-it-yourself, month-to-month rental of storage space. Though sometimes referred to as "mini-storage" facilities or "mini-warehouses," they are unlike warehouses because they involve a landlord/tenant relationship. New Jersey is one of 45 states that have laws defining this relationship, so you should contact state authorities to learn of applicable regulations.

### A Restaurant Worker's Food For Thought

I work in a restaurant and would like to publish a small magazine or newspaper reviewing local restaurants. How can I go about this?

*L.S., Auburn, Pa.*

One place to go for advice is the Association of Free Community Papers, based in

## HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question via electronic mail to [directline@nbmag.com](mailto:directline@nbmag.com). Be sure to include your address and telephone number.

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Chicago. Deirdre Flynn, associate director of the association, says, "There has been very little documented about starting a free-circulation community paper." But the first step, she suggests, "is to determine if there's an advertising base to support the publication."

You must have an existing publication in order to join the association. Membership dues range from \$100 to \$2,000 a year, depending on circulation. The group's members include free newspapers called shoppers, which contain only advertising, and free papers that contain editorial content along with ads. For more information, call (312) 644-6610.

Starting a magazine from scratch is likely to be difficult because a special-purpose publication, such as one based on restaurant reviews, probably will have a limited pool of advertisers. And don't be surprised if advertisers get indigestion if you criticize their cooking in print.

## Hooking Up Some Help On Electronic Documents

I'm interested in starting a business in the field of management of electronic

documents. What organizations could I contact for help?

*B.H., Denton, Texas*

You may want to try Xplor International—The Electronic Document Systems Association. The group is based in Torrance, Calif., and can be reached at 1-800-

the more complex electronic exchange of newsletters, reports, newspapers, or other press-ready copy. It also encompasses other formats, including fax-on-demand services and Internet publications.

The global industry encompassing electronic-document systems generates about \$110 billion a year in revenues, says Xplor International.

Among the association's membership benefits is a telephone hot line staffed by systems experts who can help with technical problems.

The association also has numerous regional and local chapter offices to assist with professional development and personal networking.

The group sponsors an annual international conference for the electronic-document-systems industry. This year's conference will be held Nov. 8-13 in Nashville, Tenn.

To join Xplor International, an individual or a company must be a user or a vendor of electronic-document systems or products. Annual membership fees range from \$130 for an individual to \$2,095 for large companies.

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669-7567 or through staff members' electronic-mail links at [www.xplor.org](http://www.xplor.org) on the World Wide Web.

Electronic-document technology takes various shapes, from the simple electronic transfer of computer text and data files to

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# Editorial

## Helping Business To Get Out The Vote

The upcoming off-year elections will make demographic history as the number of Americans of voting age exceeds 200 million.

But if established patterns persist, on Nov. 3 more than half of those Americans will fail to exercise the fundamental right—and responsibility—of citizens of a free society.

For the past two decades, nonvoters have outnumbered voters by substantial margins in national elections in which members of Congress but not a president are chosen. About 55 percent did not cast ballots in 1994, the most recent such election. (See chart.)

And there are additional, disturbing trends within that figure.

Of the 159 million voting-age Americans under 65, the vast majority are working and presumably concerned about government policies that affect the economy and their livelihoods. Yet 92.4 million—58 percent—failed to vote in 1994.

Those most delinquent in failing to exercise the right to vote were in the 18-to-24 age bracket, the source of tomorrow's leaders in business, the professions, and government. An astounding 80 percent of those young people failed to vote in 1994.

The distressingly low participation of American citizens in elections is a subject of deep concern to business. The U.S. Chamber of Commerce, the largest broad-based business organization, says: "Congress needs additional pro-business members who understand and support the concerns of the business community and understand that a stronger, more competitive economy leads to better jobs and higher wages."

Individual businesses can assume a key role in acquir-

ing that strength. The tools for doing so are readily available through the Chamber's 1998 Voter Registration and Get-Out-The-Vote Campaign, which is designed to encourage registration and voting by employees.

More than 1,000 businesses, trade and professional associations, and chambers of commerce from all 50 states have joined the national Chamber as partners in the campaign. They support the U.S. Chamber position

that "it is the responsibility of every business, chamber of commerce, and trade and professional association to facilitate the registration of their employees and members, educate them concerning the impact of political decisions on their paychecks and benefits, and encourage them to vote."

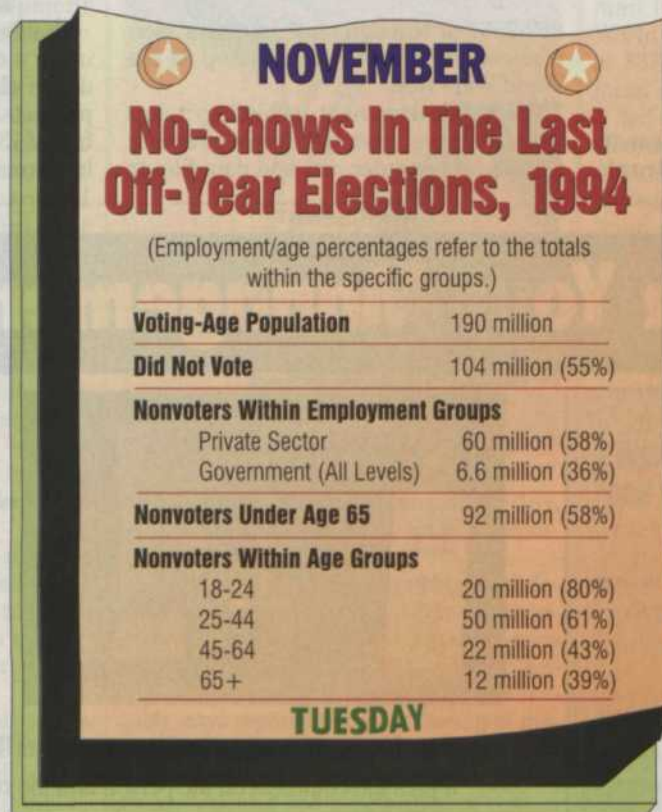
Businesses and business organizations wishing to become partners in the 1998 campaign can obtain information and materials, including a manual on running registration and voting drives, by writing to The 1998 Voter Registration and Get-Out-The-Vote Campaign, U.S.

Chamber of Commerce, 1615 H Street, N.W., Washington, D.C., 20062-2000. Extensive information on the drive is also available through the Chamber's home page on

the Internet at [www.uschamber.org/getv](http://www.uschamber.org/getv).

Members of Congress elected this November will be dealing with issues that will have a profound impact on business.

The 1998 registration, education, and voting campaign offers business a way not only to increase the turnout in this election but also to help voters arrive at informed decisions on which candidates offer the most for the economic well-being of the country and of individual businesses and their employees.



SOURCE: CALCULATIONS BASED ON U.S. BUREAU OF THE CENSUS DATA





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